UK

THE BOOTS COMPANY

Report and Accounts

for the year ended 31st March 1998

The Boots Company embraces businesses operating principally in retailing, the manufacture and marketing of health and personal care products throughout the world and the development and management of retail property.

Our objective is to maximise the value of the company for the benefit of its shareholders. We will do so by investing in our businesses to generate strong cash flows and superior long term returns.

While vigorously pursuing our commercial interests, we will, at all times, seek to enhance our reputation as a well managed, ethical and socially responsible company.

Financial Highlights

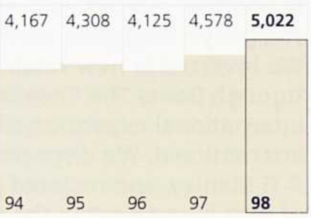
Our capital structure is always under review to assess its efficiency in line with the policy of maximising shareholder value.

In the last five years the balance sheet has been restructured through share buybacks of £511 million (1994/95) and £300 million (1996/97) and the payment of a special dividend of £400 million (1997/98). The total amount of cash returned to shareholders in these distributions and through normal dividends in the past five years has totalled almost £1.9 billion.

The value of these payments to shareholders and the effect of the movement in share prices in the five year period have led to a total return to shareholders of 128.2 per cent, which represents 17.9 per cent on an annualised basis.

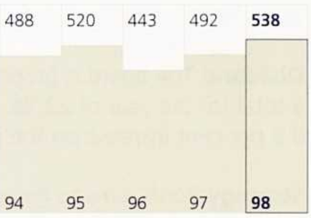
Turnover £m

Turnover increased by 9.7% to £5,021.9 million
Turnover from continuing operations increased by 11.7%



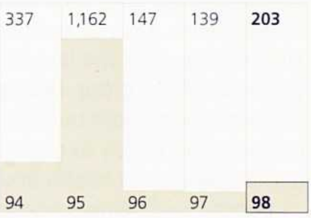
Operating profit before exceptional items £m

Operating profit before exceptional items increased by 9.4% to £538.0 million
Operating profit before exceptional items from continuing operations increased by 7.7%
Profit before tax and exceptional items was £553.2 million



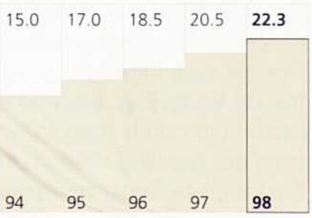
Free cash flow £m

1995 includes the sale of Boots Pharmaceuticals



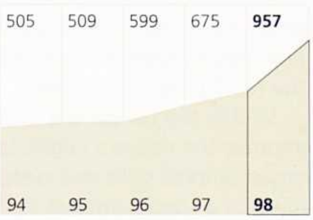
Distribution to shareholders pence

Dividend per share (excluding special dividend)
increased by 8.8% to 22.3p



Share price pence at 31st March

The percentage change in share price for the five years to
31st March 1998 is 100.2%, from 478p to 957p



Chairman's Statement

In another very active year we took further action to enhance the company's long term profitability and capacity to create value. We invested in new retail outlets and better customer intelligence through Boots The Chemists Advantage Card. We continued the international expansion of our retail business and of Boots Healthcare International. We disposed of our loss-making home decorating chain, A G Stanley, and restored Do It All to profit. We reaped the benefits of past investment in the retail property market and shareholders received over £400 million through the special dividend paid in June 1997.

Dividend The board is proposing a final dividend of 15.6p per share, making a total for the year of 22.3p. Excluding the special dividend this represents an 8.8 per cent increase on the previous year.

Strategy Boots aims to generate strong cash flows and superior long term returns for shareholders. To do this we maintain a high level of investment in growing the core businesses and in increasing their efficiency and effectiveness. Each of the businesses contributes to our overall goal and aims to maximise the benefit of affiliation within the wider group. The strategic role of group headquarters is in portfolio strategy, seen in the disposal of non core businesses such as A G Stanley, and in seeking out new areas in which to exploit our skills, as in international retail development and the launch of health and travel insurance products.

Boots The Chemists continues to grow in the UK through its store opening programme and merchandise development and is building its position in The Republic of Ireland. Halfords is making a successful transition from high streets to edge of town sites and extending its own brand ranges. Boots Opticians continues to open additional stores, moving towards its goal of UK market leadership. Do It All is focusing on areas where it can differentiate itself more clearly from competitors. All these retail businesses are benefiting from our growing strength in developing own brand and exclusive ranges. Expansion by Boots Healthcare International overseas continues, both organically and by acquisition, and Boots Contract Manufacturing is focused on sales growth and product development in both its internal and third party business. Boots Properties applies its unique combination of financial strength and market intelligence to take timely advantage of changing conditions in the retail property market.

Within the UK we are uniquely placed to participate in initiatives to improve the nation's health because of our national coverage, resource base, organisational skills and customer traffic. Our position in healthcare provision gives us a special interest in the Government's 'Our Healthier Nation' Green Papers, which raise issues and potential opportunities for Boots The Chemists. We have been able to respond to the Government emphasising the vital role of women in family healthcare and the central part played by community pharmacy in raising awareness of health issues and encouraging healthier lifestyles.

Over the past three years the board has been working to restructure the balance sheet with share buybacks in 1994 and 1996 and a special dividend in 1997. The total amount of cash returns to shareholders in these initiatives and through normal dividends in the past five years has totalled nearly £1.9 billion. The annual growth in total shareholder returns during that period has averaged 17.9 per cent.

The success of our strategies is demonstrated by the sustained strength of the company's performance over the past ten years. During that time, sales have grown 94 per cent and operating profits over 136 per cent; our share price has outperformed the FTSE All Share index by 44 per cent and the general retail sector by nearly 100 per cent; and our market capitalisation has more than quadrupled.

Year 2000 Our programme to ensure that our business operations are unaffected by the 'millennium bug' continues on schedule. We are confident that our own systems will be fully Year 2000 compliant by early 1999, and are working with key suppliers to ensure that their preparations are consistent with ours. We anticipate total costs of £14 million, of which £3 million was incurred during 1997/98.

Economic and Monetary Union (EMU) EMU potentially requires even greater preparation and investment by retailers than Year 2000 compliance. The contact between retail staff and the customer will present particular training needs. The introduction of the euro will affect the company whether or not the UK participates in EMU: our businesses operate in seven of the first wave countries and we expect growing use of the euro within the UK. We are taking steps to ensure that the anticipated changes will not impede the continuing development of our European businesses.

People The company's achievements are those of its staff and we congratulate them for the result they have achieved. Particular thanks are due to those who helped to restore normal operations so promptly after the fire at one of our Nottingham warehouses in October. Without their efforts, the disruption so close to the crucial Christmas period would have been very much greater.

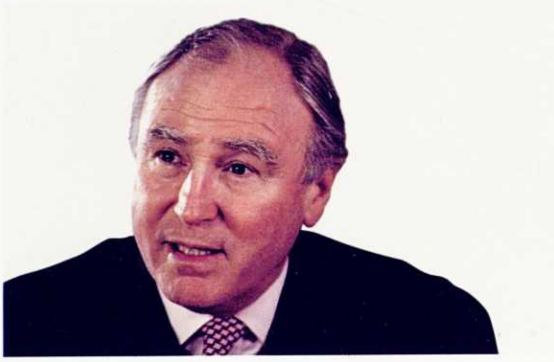
In December we welcomed two additional non-executive directors to the board: John McGrath, chief executive of Diageo, and John Buchanan, chief financial officer and a managing director of BP. Robert Wilson is retiring as a non-executive director at the annual general meeting having served since 1991. His wise counsel has been invaluable.

Lord Blyth moves into a new role as chairman after the annual general meeting and I both congratulate him and wish him well. I am delighted to have been asked to retain an active involvement in the company as deputy chairman.

Michael Angus

Sir Michael Angus
Chairman

Chief Executive's Review



Group sales from continuing businesses increased by 11.7 per cent to £4,975.6 million and profit before tax and exceptional items was up 3.2 per cent to £553.2 million. In an uncertain economic climate we continued to find new ways to grow our businesses and generate value for shareholders.

Cash flow Operating cash flow was £605.6 million, an increase of 17.6 per cent on the previous year. In addition to the cash flow generated by the businesses, we benefited from buoyant demand in the retail property market; this enabled Boots Properties to generate cash flow totalling £233.7 million from property disposals.

Businesses Boots The Chemists increased sales by 7.9 per cent and profits by 4.1 per cent to £443.8 million. Customers have responded enthusiastically to the Advantage Card, and incremental sales are already covering its ongoing operating costs. By tailoring store formats to locations, Boots The Chemists is still managing to extend its UK store network profitably, and in The Republic of Ireland its rapid growth – both organic and through acquisition – has made it the country's largest retail pharmacy chain.

Our pilot international retail programme is making good progress, with nine Boots Health & Beauty stores now trading successfully in Thailand and The Netherlands. Since the year end we have announced further investment in Thailand, where we plan to open another 40 stores over the next two years.

Halfords maintained strong profit growth, with operating profit up 27.6 per cent to £34.2 million on sales up 5.4 per cent. Margins were boosted by further expansion of own brand sales; profits also benefited from the continuing recovery of the garage servicing business, which came close to breaking even in the year and showed a profit in the second half.

Boots Opticians accelerated its sales and profits growth with sales up 23.5 per cent and operating profit before exceptionals up 23.2 per cent to £17 million. This outstanding result was achieved against fierce competition. The competitive strength of Boots Opticians comes from its success in attracting and retaining scarce qualified staff and its use of technology to provide high quality customer service. Our confidence in the business is clear from the fact that in 1998/99 we are stepping-up the rate at which it opens new stores.

In its first full year of ownership by Boots, Do It All is on the mend and has produced an excellent result – making a profit of £2.5 million compared with a £7.6 million loss in the previous year. The disposal of underperforming stores was virtually complete by the end of the year. Although this resulted in an overall sales reduction of 3.2 per cent, the ongoing stores achieved encouraging sales growth of 6.8 per cent.

At Boots Healthcare International, the investment of previous years is now bearing fruit: sales grew 12.4 per cent and the business turned a 1996/97 operating loss before exceptionals of £6.6 million into an operating profit before exceptionals of £1.2 million. Our confidence in its ability to achieve sustained growth and value creation is demonstrated by our continued investment in this business.

Boots Contract Manufacturing grew sales by 21.3 per cent and increased profits by 25.4 per cent to £24.7 million. This was a considerable achievement given the strength of sterling against other currencies and reflected flexible use of the company's manufacturing operations in France, Germany and Spain.

Boots Properties delivered an outstanding return on previous years' investment, capitalising on the latest turn of the market cycle. The business took the opportunity of a buoyant market to sell some shopping centres and retail parks at premium prices – raising a total of £301.1 million.

Understanding our customers Continued profitable growth, particularly in our retail businesses, has always depended on knowing and understanding our customers. Today we are using increasingly sophisticated technology to achieve this – through the database marketing system being introduced by Boots Opticians, for example, and most significantly through the new Boots The Chemists Advantage Card. Already being used by eight million people, the Advantage Card is the first loyalty card from a major retailer to use smartcard technology. By giving us much deeper knowledge of our customers it will greatly refine the way we target and market products.

Making the most of our people The quality of our customer service and the imagination and flexibility with which we drive forward every part of our business, depend entirely on attracting, retaining and developing outstanding people at every level in the organisation. As a group, we are fortunate in being able to offer managers a broad range of experience and career opportunities; and we are encouraging all our business units to find their own ways of making the most of their people's potential and providing them with attractive, challenging careers.

Outlook With the UK economy showing signs of slowing down we see some evidence of weaker retail sales in what is an increasingly fragile domestic market. We know that our core businesses are resilient and capable of withstanding such conditions more robustly than many other retail businesses. Whilst continuing to exploit opportunities for expansion in the UK and to capitalise on strengths in own brands and information technology, we are directing more of our attention to overseas opportunities. At home our stable and loyal customer base underpins our confidence that we shall continue creating value for shareholders.

Lord Blyth of Rowington
Deputy Chairman and Chief Executive

Financial Review

Performance measurement The company's governing objective is to maximise the value of the company for the benefit of its shareholders. In line with this we believe that the best overall measure of group performance is total return to shareholders calculated from the movement in the share price and the value of dividends as if reinvested when paid. We monitor our performance on a rolling five year basis against ten peer companies, the results of which are shown in the adjoining table.

During the year our share price rose from 675p at the end of last year to 957p on 31st March 1998, giving a market capitalisation of £8.7 billion. The share price ranged from a high of 963p to a low of 676p.

Sales and operating profits from continuing operations before exceptional items increased in the year by 11.7 per cent and 7.7 per cent respectively.

Basic earnings per share (EPS) decreased from 42.9p to 29.0p. After adjusting for exceptional items EPS rose from 39.5p to 42.6p. The board has proposed a final dividend of 15.6p. This brings the total dividend for the year to 22.3p, an increase of 8.8 per cent over the equivalent amount last year excluding the special dividend.

Shareholder returns of The Boots Company compared with peer companies

Returns are calculated using average share prices over the three months to 31st March.

	Five years to 31st March 98	%
1	SmithKline Beecham	282.4
2	Tesco	151.9
3	GUS	129.5
4	Boots	128.2
5	Kingfisher	117.6
6	Marks & Spencer	100.4
7	Reckitt and Colman	96.1
8	Smith & Nephew	37.3
9	W H Smith	31.7
10	J Sainsbury	6.8
11	Sears	(35.6)

Cash flow Cash management is one of the key performance measures used by the company to monitor its businesses. The maximisation of cash flow is the key factor in value creation. The summary of cash flows shown below demonstrates the company's ability consistently to generate a healthy free cash flow which is defined as cash flow available to all the providers of capital.

Summary of cash flows	**1998 £m**	1997 £m
Operating cash flow before exceptional items	**634**	540
Exceptional operating cash flows	**(28)**	(25)
Acquisition of businesses	**(181)**	(170)
Disposal of businesses	**(9)**	130
Purchase of fixed assets	**(249)**	(223)
Disposal of fixed assets	**262**	54
Taxation paid	**(233)**	(174)
Other items	**7**	7
Free cash flow	**203**	139
Share repurchase	**–**	(300)
Dividends paid	**(563)**	(170)
Net interest	**(11)**	39
Net cash flow (page 53)	**(371)**	(292)

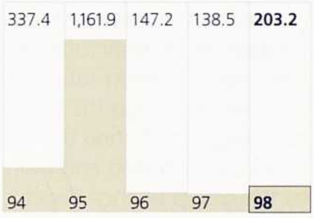
The group generated cash from operating activities of £634 million, an increase of £94 million on last year.

The exceptional cash flows are analysed in note 22 to the financial statements and include expenditure on terminating onerous contracts at Do It All of £36 million. These relate mainly to property lease commitments.

Investment in fixed assets was at a similar level to last year. The fixed asset disposal proceeds relate mainly to the sale of investment properties.

The adjoining graph shows the amounts generated by the group for each of the last five years.

Free cash flow £m
Includes the sale of Boots Pharmaceuticals in 1995



Acquisitions and disposals of businesses Boots Healthcare International established a presence in Germany with the acquisition of a leading German medical skincare company Hermal Kurt Herrman oHG for £176 million.

Boots The Chemists extended its presence in The Republic of Ireland with the acquisition of the Hayes Conyngham & Robinson chemists chain for £11 million.

The group disposed of A G Stanley for £1.

Interest Net interest receivable for 1997/98 was £15 million compared with £44 million last year. The main reasons for this decrease are the effects of the special dividend in June 1997 and the acquisition of businesses offset by the proceeds on disposal of properties.

Given the overall cash, borrowing, interest rate swap and cap position of the group, each 1 per cent increase or decrease in short term interest rates, up to a level of 9 per cent, increases or decreases net interest payable by about £9 million. Beyond 9 per cent, for each 1 per cent, the impact is reduced to about £2 million.

Liquidity and funding At 31st March 1998 net debt was £149 million compared with net funds of £229 million at the start of the year.

During the year the group put in place committed credit lines totalling £210 million, with seven relationship banks. These committed lines, which have been substantially unused during the year, mature in August 2000.

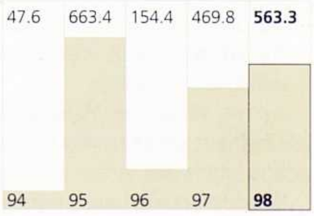
Short term financing needs continue to be met from uncommitted bank borrowings.

The profile of the group's borrowings gives maturities of two to five years for 25 per cent of the borrowings and more than five years for 18 per cent.

Capital structure Since 1994 the group has undertaken a series of transactions to help achieve a more efficient capital structure, in line with the policy of delivering shareholder value. It is sensible to finance a proportion of capital requirements with borrowings, especially when the business consistently produces strong cash flows.

The latest such transaction was a £400 million special dividend, paid in June 1997. Payments to shareholders in the form of dividends and share repurchases over the last five years are shown in the adjoining table.

Payment to shareholders £m
1995 and 1997 include share repurchases of £511.3 million and £300 million respectively. 1998 includes the special dividend of £400.5 million.



Treasury control policy We have clear strategies for all major aspects of treasury policy. Strict guidelines for cash investments apply worldwide with cash held only in bank deposits and commercial paper of high quality.

Controls seek to prevent fraud and other unauthorised transactions as well as counterparty risk. There are regular reviews by the group's internal audit staff.

Financial Review continued

Interest rate policy Since hedging against the impact of short term interest rate movements merely reduces earnings volatility, rather than increasing the value of the company, we do not enter into such hedging.

In common with other UK retailers, the group has significant liabilities through its unconditional obligations to pay rent under property leases. The implicit interest rate on these liabilities is fixed.

Some years ago the board adopted a strategy of regular long term interest rate swaps to change the balance between fixed and floating rate debt. This is strictly controlled and monitored and each swap is individually authorised by the group finance director.

The net present value of the lease liabilities has increased during the year, as a result of falling long term interest rates. This increase in liabilities has been offset, to some extent, by the corresponding increase in the value of the related interest rate swaps.

The total volume of lease related interest swaps in respect of this year end was £775 million, with four swaps, totalling £100 million, undertaken for the year. All of these swaps had an initial maturity of ten years to match the long term nature of the underlying property leases. The average maturity of these swaps is now eight years.

During the year the group entered into a series of arrangements which cap the floating rate payable under £700 million of these swaps. The average cap is just over 9 per cent and they all expire in September 2000.

Currency exposure policy Modest sales and purchases are made in a range of currencies but it is not considered that hedging them into sterling adds value.

Taxation The effective tax rate for the group was 30.3 per cent. The main reason for the reduction from the UK standard rate of 31 per cent is the release of corporate tax relating to prior years.

Pensions The next actuarial valuation of the principal UK pension scheme will be completed as at 1st April 1998. Following the previous valuation there is no requirement for the company to contribute to the scheme although a charge of £5 million has been taken in the year.

Year 2000 Assuring the ongoing operation of business systems and processes into the next millennium is a key focus of management. We recognise three elements in our Year 2000 compliance activity:

- assurance that all business systems will correctly process future dates
- verification that embedded logic units within our manufacturing, testing and environmental control systems operate correctly over the millennium change
- liaison with our trading partners, suppliers and customers, to ensure that the supply chains we depend on and are involved in continue to operate without disruption.

Across all our business units we have undertaken a comprehensive assessment programme to identify the issues to be addressed and a series of action plans are in the process of being implemented.

In addition we have formed working groups charged with co-ordinating compliance activity and communicating experience and best practice across the company. Regular progress reports are provided to the executive directors.

The approach we have adopted for business systems compliance involves a combination of modifying existing systems where they continue to meet our functional requirements and replacing others where there is opportunity to refine business processes. Work commenced in 1996 and we expect to have completed the majority of the compliance work on the existing business systems base by the end of 1998. Some work on new systems, which we view as part of implementing our IT investment strategy, will extend into 1999.

We have communicated to our supplier base and are now involved in follow-up work to assess their progress towards compliance. We continue to work closely with our suppliers of plant and equipment containing embedded logic units to verify effective operation.

Our costs involved in achieving systems compliance have been considerably offset by our active programme of systems replacement and renewal as part of our ongoing drive for business improvement. Many older systems that would have required rectification work were scheduled for replacement. The direct cost therefore of modifying our existing system base is comparatively modest, amounting to £3 million in 1997/98. We expect the incremental cost attributable to Year 2000 systems compliance to be in the region of £14 million throughout the length of the full programme.

Economic and Monetary Union (EMU) During the year we have appointed a full time project manager and undertaken a high level analysis of the impact of the introduction of the euro. We have retail businesses in The Republic of Ireland and The Netherlands and manufacturing and marketing companies in seven of the first wave countries. We anticipate total costs of approximately £5 million will be incurred between 1998 and 2002 to support the introduction of the euro in these countries.

The costs of the UK joining EMU are certainly greater than our costs in first wave countries but are more difficult to predict. This difficulty arises because of the uncertainty over whether and when the UK will join and what the UK transition plan would be. Early estimates are that our total costs will be in line with published surveys of other retailers at around 1 per cent of turnover, approximately £40 million.

Retailers will be in the front line in managing the transition for consumers. A particular issue for Boots is the need for extensive staff training prior to the introduction of euros in the UK. We are keen that the government leads a co-ordinated information campaign and starts outline planning of the practical issues surrounding the potential introduction of the euro as soon as possible.

Accounting standards The company fully supports the objectives of the Accounting Standards Board (ASB) in its aim to improve the quality and consistency of financial statements. Over the past 12 months we have continued to comment on ASB pronouncements relevant to our business and we will continue to do so.

DAR Thompson

David Thompson
Joint Group Managing Director and Finance Director

The Company Today

	In brief	Key facts
BOOTS THE CHEMISTS	Boots The Chemists is market leader in many areas of its business including healthcare, cosmetics, toiletries, baby consumables, films and film processing.	**1,321** total stores **1,097** small stores **207** large stores **4** free-standing 'photo centres' **13** health centres
HALFORDS	The UK's largest retailer of car parts, accessories, cycles and cycle accessories. The strong and growing Halfords brand accounts for 45% of all sales. Halfords is also the largest garage servicing organisation in the country.	**412** total stores **114** high street stores **298** out of town superstores (135 with garages)
BOOTS OPTICIANS	One of the UK's largest chains of opticians and growing fast. Boots own brand products account for 66% of all sales.	**285** stores
DO IT ALL	Do It All has a particular strength in stylish and inspirational products for home decoration and garden leisure and a reputation for outstanding service and advice.	**134** ongoing stores
BOOTS HEALTHCARE INTERNATIONAL	Responsible for the development and marketing of consumer healthcare products in the UK, Europe, Africa, the Indian sub-continent, South East Asia and Australasia. The core brand range includes Nurofen, Strepsils, E45, Lutsine, Onagrine, Balneum and Unguentum.	**18** operating businesses around the world **130** countries in which products are sold
BOOTS CONTRACT MANUFACTURING	Develops and produces a wide range of own brand products for Boots The Chemists, consumer products for Boots Healthcare International and numerous products under contract for other major European and multinational companies.	**3** factories and **1** major development laboratory in the UK **4** factories in Europe
BOOTS PROPERTIES	Manages the group's freehold and long leasehold property portfolio. Its prime objective is to give the Boots retail businesses readier access to the locations they seek.	**764** retail properties

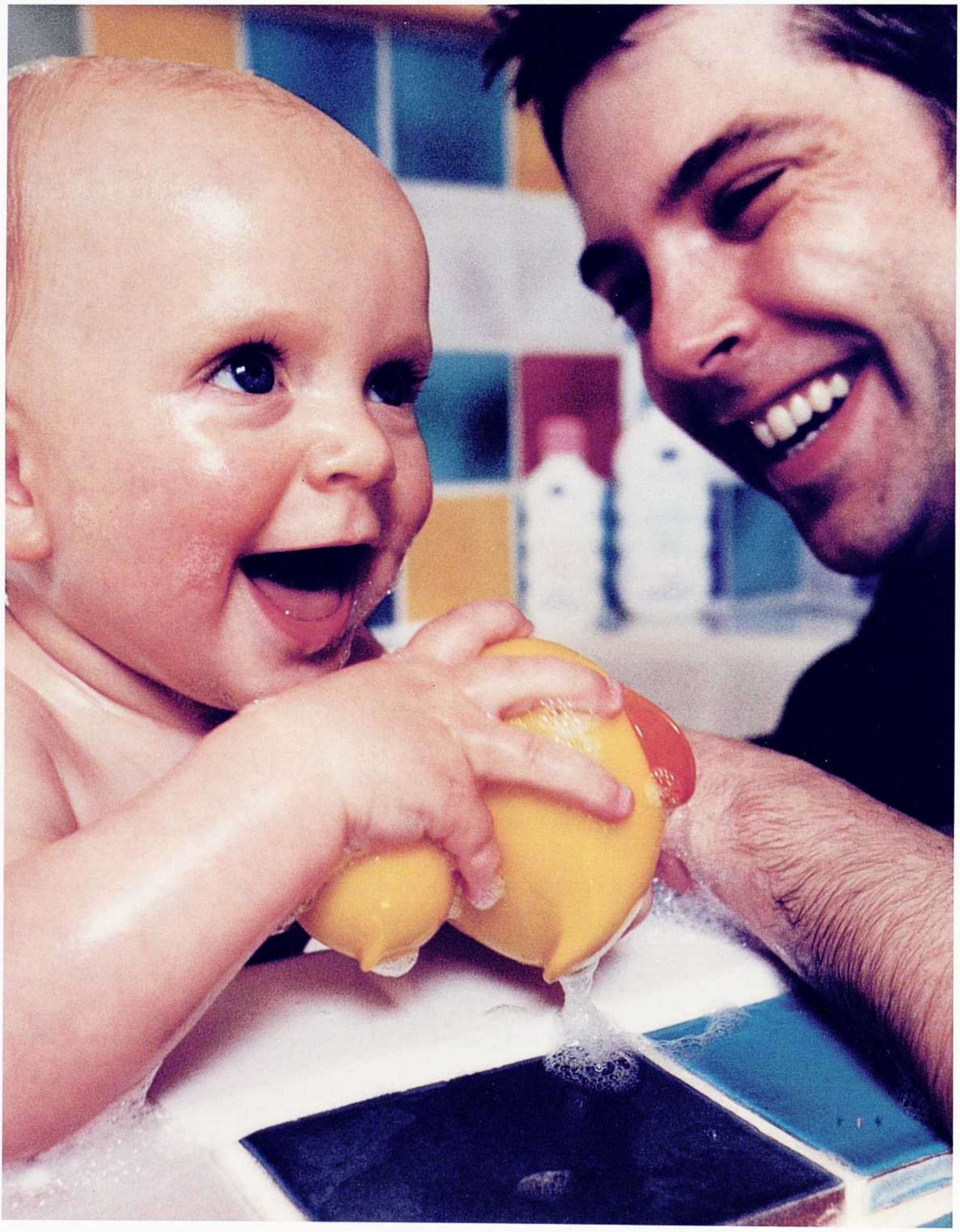
Number of employees	Turnover £m 94	95	96	97	98	Operating profit/(loss) £m 94	95	96	97	98
58,369	3,808.0	2,943.8	3,107.6	3,313.5	**3,573.7**	323.9	349.7	384.8	426.5	**443.8**
9,581	357.0	377.9	390.5	412.8	**435.0**	14.5	20.5	22.1	26.8	**34.2**
4,349	102.1	119.1	132.3	148.1	**182.9**	6.7	8.3	10.9	13.8	**17.0**
5,039	194.2	185.3	170.7	301.4*	**337.2**	(10.6)	(6.3)	(10.1)	(6.9)	**2.5**
1,952	227.7	203.5	206.7	243.4	**273.7**	21.3	9.8	(8.2)	(6.6)	**1.2**
4,027	208.8	216.0	239.4	259.5	**314.9**	16.2	17.8	16.7	19.7	**24.7**
92	108.4	98.0	102.9	102.1	**149.6**	67.1	66.8	68.2	72.1	**76.0**

*100% ownership from June 1996.

Operational Review

We create value, year after year, because we cater for such a wide diversity of people's needs – whatever their age and wherever they may be. Whether they need suncream, painkillers, motor oil, curtains or glasses, we're part of people's everyday lives.

The next thing he'll be wanting is a bike



Boots The Chemists

Boots The Chemists (BTC) continued to drive forward sales and profits in difficult trading conditions. Significant factors included a major fire at one of BTC's central warehouses in Nottingham, a poor summer which affected suncare sales and a mild winter with relatively low incidence of coughs and colds. Despite these factors, turnover rose 7.9 per cent to £3,573.7 million, with counter sales up 7.5 per cent and dispensing up 9 per cent. Sales growth accelerated through the year, boosted by the increasing success of the Advantage Card. Despite the card's £20 million revenue cost, operating profit rose 4.1 per cent to £443.8 million.

Boots The Chemists	
Managing Director, Steve Russell	
Sales £m	3,573.7
Increase %	7.9
Profit £m	443.8
Increase %	4.1
Sales split	**%**
Healthcare	42.7
Beauty	39.8
Leisure	17.5

Strategy BTC is creating value by concentrating on four strategic goals. It is differentiating its offer to consumers by focusing on beauty and healthcare, positioning Boots as the store that helps customers to 'look good, feel good'. It has embarked on a process of fundamental change to improve its way of working. It is continuing to expand its store portfolio, in a variety of formats, in the UK and The Republic of Ireland. And it is developing profitable new products and activities in areas where the Boots brand adds value.

People To achieve these objectives, BTC has one overriding aim: to get all its people thinking and working more effectively. It is undertaking a far-reaching reorganisation of marketing, stores and central functions, redesigning the way people work. This programme brings together business process engineering, new IT systems and the development of a more participative culture. It will make the organisation more effective, efficient and more responsive to customers' aspirations. Central functions such as personnel, marketing and finance have been devolved. Profit accountability has been driven deeper down the organisation so that individuals can apply their energy and imagination more directly to creating value, guided by the overall strategic objectives.

The aftermath of the warehouse fire in October demonstrated the success of this approach. Even before the fire was finally out, a team had begun to make alternative logistics arrangements and plan the rebuilding. What remained of the 250,000sq ft building had to be demolished, but thanks to a remarkable effort by many individuals the first phase of its replacement was in operation by June, less than nine months after the fire.

Store development The small store expansion programme continued, with 32 more stores opened in 1997/98. BTC's growth is increasingly through more edge of town stores – 13 opened during the year, taking the total to 21. They are proving enormously successful. They generate their own traffic, taking little trade from other BTC stores, and transaction values are typically 50 per cent higher than in the high street stores which remain the core of the chain.

Rapid expansion in The Republic of Ireland has made Boots the country's largest retail pharmacy chain. BTC opened six stores in The Republic during the year, bringing the total to eight. In January 1998 it acquired the Hayes Conyngham & Robinson chemists chain, adding a further 15. Refurbishment of these stores is under way.

In April 1998 BTC acquired the Connors pharmacy chain, which has

No7, the leading cosmetic and skincare brand developed and manufactured by Boots, now with a new look skincare range.

Boots The Chemists continued

25 stores in Northern Ireland, five in The Republic of Ireland, three in England and one in Wales. This acquisition gives Boots market leadership in Northern Ireland and strengthens its leadership in The Republic.

Experiments with new formats and layouts continue, with stores of various sizes designated as 'learning laboratories'. A motorway service area store has proved successful, and five more are planned in 1998. Stores in hospitals are still under trial.

Advantage Card BTC's loyalty card, the Advantage Card, was launched nationally in September 1997 after extensive trials. One in three BTC transactions are now linked to the Advantage Card. As expected, by the year end incremental counter sales of an estimated 3.5 per cent had been achieved. Promotions offering bonus card points have been very successful. The card provides valuable insights into consumer behaviour which are already guiding the tactical use of promotions. The next step is to build sales by making use of the card database and its smartcard chip technology.

New products and services Using information from the Advantage Card database, BTC launched Boots Mother & Baby at Home, a home shopping catalogue. The first 500,000 catalogues, mailed in March 1998, contain over 1,500 products ranging from baby food to nurserywear. The catalogue enables BTC to extend its range to items such as maternity wear and baby equipment.

New product development is a key driver of health and beauty sales, major launches in beauty and personal care included the Kyusu toiletries range and the ACT skincare range for teenagers. The relaunch of Boots sandwiches and new chiller cabinets helped to boost lunchtime sales by 25.7 per cent.

BTC is strengthening its market leadership in photo processing through a £27.5 million investment in Advanced Photo System (APS) processing equipment. All 470 in-store mini-labs will be equipped with the machines by early 1999, enabling Boots to offer Europe's first national one-hour APS service.

Pharmacy Pharmacy sales grew 9 per cent and Boots maintained market share. New own brand pharmacy products, giving BTC higher margins, brought the total range to 120 frequently prescribed items.

A promising innovation under trial in the 'learning laboratory' stores is a redesigned pharmacy layout suitable for almost all BTC stores, whatever their size. It enables 80 per cent of prescriptions to be dispensed within two minutes – a key benefit for customers – and provides a consultation area where customers can discuss health concerns with the pharmacist in privacy.

Beauty and personal care Overall sales grew 8 per cent, with a significant gain in market share for cosmetics, but fragrances suffered from intensifying competition. The Advantage Card and stronger promotion boosted haircare, dental care and, particularly, skincare. Relaunches included Natural Collection toiletries, targeted more clearly at young teenage girls and the £45 million a year 17 cosmetics range, one of BTC's largest brands.

Camera sales have risen dramatically, driven by the investment made in Advanced Photo Systems. Boots brand launches also include Boots Anti-Malarial Tablets.

Well that's one way to stop sunburn

Boots The Chemists continued

mum's been treating herself again

Healthcare Sales were buoyant, growing 7.9 per cent despite the low incidence of hayfever in the summer and coughs and colds in the winter. Smoking cessation products grew strongly, while vitamins and supplements suffered from the mild winter and adverse publicity for B6 products.

Other merchandise areas It was an excellent year for BTC's photo business, which strengthened its market leadership in photo processing, benefiting from its growing dominance in APS. In cameras, APS accounted for 42 per cent of sales. The new Boots brand camera range proved highly successful.

Outlook BTC continues to broaden its offer to customers. In April this year it launched an initial range of nine health and travel insurance products that can be bought 'off the shelf' in 250 of its largest stores. Royal & Sun Alliance carries the insurance risk and provides underwriting and claims services.

Other initiatives include trials of GP surgeries in selected Boots high street stores, operated by an independent healthcare services provider.

The new head office extension opens in January 1999, bringing together people for team-based, cross-functional working.

International Retail Development BTC sees international expansion as a value creating long term growth opportunity which fits with a number of trends including the globalisation of health and beauty brands. The pilot programme has moved from the research phase to 'learning by doing'.

Trading has begun in The Netherlands and Thailand, with sales for the year totalling £5.2 million. Overall losses amounted to £21.2 million, including UK incurred costs and preparatory costs for Japan.

Early indications are encouraging, with consumers responding very positively to Boots own brand products. These now account for 37 per cent of sales in The Netherlands and 47 per cent in Thailand.

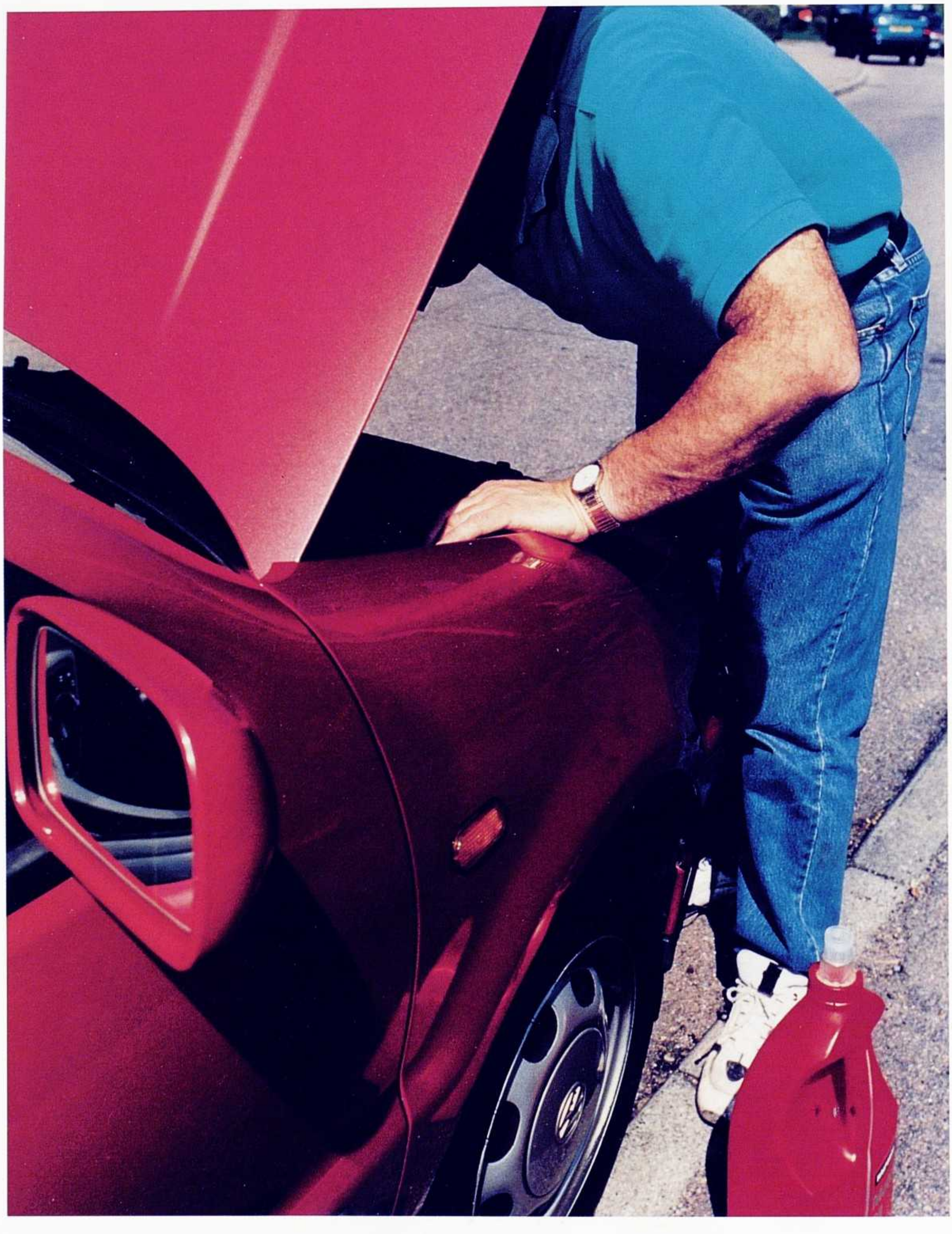
In Thailand six stores opened during the year and sales have increased steadily despite the recession. The stores are making an operating profit. Since the year end we have announced a programme of a further 40 stores over the next two years. In The Netherlands, three stores opened in 1997 and four more are planned for 1998. Sales are now good and our experience has led us to make a number of changes to improve profitability.

Work continues on preparations for entry to Japan: 1,400 products have been reformulated to meet local regulatory requirements and 930 have been registered. Negotiations continue with a potential joint venture partner.

Charles Worthington is a premium hair care and men's skincare range exclusive to Boots. ACT was launched as a skincare range for teenagers.

Halfords

We deserve the best.



For the second year running Halfords recorded strong operating profit growth – up 27.6 per cent to £34.2 million. This was achieved despite tough market conditions: sales rose 5.4 per cent overall and like for like growth was 2.8 per cent. Gross margin continued to improve – rising 2 percentage points, largely as a result of further growth in own brand sales. Losses in the garage servicing business were reduced to £1.2 million.

Strategy Although the car parts and accessories market is experiencing significant consolidation, Halfords continues to enjoy major advantages in size, differentiation and consumer confidence. It is currently increasing the pace and focus of its strategic development to maximise the benefit of these advantages. Opportunities to create additional value include targeting higher spending customer groups, making better use of existing customer traffic, extending the Halfords brand and skills into related areas and further expanding the superstore chain. Halfords is continuing its repositioning from high streets to superstores, ensuring that the size of new and existing stores is closely matched to the needs of their catchment areas.

Sales Own brand sales continued to advance, accounting for over 45 per cent of merchandise sales compared with 42 per cent in the previous year. Additions to the own brand car parts range helped it to take 50 per cent of Halfords parts sales. The mild winter benefited car cleaning products but restricted growth in batteries, de-icers and antifreeze. Sales of in-car CD equipment grew 67 per cent, boosted by increased emphasis on premier brands. Motor scooters and accessories have been successfully introduced on a trial basis and are now available in 50 stores. However, cycles sales were again disappointing and fell in a depressed and highly competitive market.

In the garage business sales grew 12 per cent and losses were substantially reduced to £1.2 million. The business made a profit in the second half. The partnership with Daewoo has proved highly beneficial for both sides; 26 Halfords stores now have Daewoo showrooms and more are planned.

Store openings Continuing the pattern of recent years, Halfords opened 25 new superstores during the year and closed 24 high street stores. With the total of superstores now nearly 300, new openings will continue but at a somewhat reduced rate, with increased emphasis on quality of location and efficient use of space. Future stores will be smaller on average and two experimental stores opened in 1997 are demonstrating that there is good scope for smaller 5,000sq ft infill stores without cycles. Halfords entered Northern Ireland in 1997, opening three superstores. A further three are planned.

Outlook An £11 million programme to introduce new EPOS tills, begun in 1997, will be largely complete by the end of 1998/99. It is bringing major efficiency gains and releasing store staff to spend more time on customer service and active selling. A variety of initiatives and trials are being developed to ensure further profitable growth from the company's strong market position.

Halfords	
Managing Director, Ken Piggott	
Sales £m	435.0
Increase %	5.4
Profit £m	34.2
Increase %	27.6
Sales split	**%**
Cycles and cycle accessories	25
Car parts	15
Auto accessories, tools and audio	49
Garage servicing	11

Halfords own brand representation has won ready acceptance from customers. Products include the High Security Steering Wheel Shield.

Boots Opticians

'not a lot of people know that'

Boots Opticians (BOL) produced an excellent performance, accelerating the growth in sales and profits. Like for like sales increased by 20.5 per cent and continuing expansion resulted in an overall increase of 23.5 per cent to £182.9 million. Operating profit before the exceptional item rose 23.2 per cent to £17 million. The exceptional item, as in past years, consisted of VAT refunds resulting from court rulings against HM Customs & Excise.

Boots Opticians	
Managing Director, Stephan Murray	
Sales £m	182.9
Increase %	23.5
Profit £m (before exceptionals)	17.0
Increase %	23.2
Sales split	**%**
Spectacles	70
Contact lenses	15
Other	15

Strategy BOL aims to become the UK market leader in optical retailing by making effective use of the Boots brand attributes of quality, professionalism, product innovation, value and customer service. It complements the Boots The Chemists (BTC) health and beauty offer.

Sales Competition between the four major multiples, including BOL, remains fierce. However, an increase in market share was secured in the year. Real market growth reflected consumer confidence and the trends towards more expensive 'designer' frames and ownership of several pairs of spectacles. Capitalising on these trends and the Boots brand, BOL increased its sales at about three times the market rate.

People Successful expansion depends crucially on attracting and retaining skilled staff, especially optometrists, who are in short supply. BOL has built a reputation among professionals as 'the best place to work' by combining leadership in graduate and continuing education with flexible conditions and career opportunities. In 1997/98 it was the largest provider of pre-registration places and in the professional examinations BOL staff took eight of the 13 national prizes.

New products Designer brands are increasingly important in raising transaction values and positioning spectacles as fashion purchases. BOL has strengthened its designer ranges, introducing names such as Calvin Klein and Kookaï and in 1997 became the first UK retailer to sell Mont Blanc frames. BOL's own label Elite fashion frames and Daily contact lenses continued to increase market share and successful launches included the Zero rimless range and Transitions enhanced plastic photochromic lenses.

Capital investment BOL opened 13 new stores during the year and refitted a further 31. It is on track to complete the refit programme in all stores by the end of 1998/99. Four new stores in edge of town BTC superstores brought the total to six, and BOL is steadily building its presence in the Greater London area.

A database marketing system has been successfully established to make more effective use of customer records. Initial results are encouraging. A full EPOS and dispensing system is also under development for introduction from Autumn 1998.

Outlook The rate of new store openings is increasing this year as BOL takes advantage of the progressive availability of quality high street locations. However, 1998/99 profits will be significantly affected by the £4 million revenue investment cost of the new EPOS system.

Boots Opticians own brand products now account for 66% of sales. They include the Elite and Zero ranges.

Do It All

If you want something doing well...

In its first full year of complete ownership by Boots, Do It All (DIA) produced an outstanding result recovering to record a £2.5 million profit from an operating loss of £7.6 million in the previous year. Overall sales fell 3.2 per cent to £337.2 million as further underperforming stores were closed but like for like sales from the ongoing stores increased by 4.4 per cent. Free cash flow in the ongoing chain was well ahead of target at £22 million.

Do It All	
Managing Director, Rod Scribbins	
Sales £m	337.2
Decrease %	3.2
Profit £m	2.5
Sales split	**%**
Decorative	55
Workshop	24
Gardening	21

Strategy The acquisition of WH Smith's share of the business in June 1996 has enabled management to refine DIA's strategy, drawing on detailed customer research. While remaining a full range DIY retailer, DIA is differentiating itself more clearly from competitors. It aims to offer stylish and innovative products, with greater emphasis on inspirational displays. Extending its established strength in home decoration, it is now building its position in 'outdoor living'. It continues to offer good value, while improving margins through effective buying and a growing proportion of own label and exclusive lines. Its established reputation for outstanding service and advice enables it to introduce additional service policies that customers value – for example, no-quibble exchanges on returned products, even if they have been used.

Store development The programme of store closures is now virtually complete: by the end of the year exit plans had been agreed on all the remaining units.

Among its 134 ongoing stores, DIA has begun a series of selective relocations and refits. The relocation of the Stockport store in June 1997 provided the opportunity to test a brighter, more browsable layout, and similar layouts were introduced in Peterborough and Truro.

Merchandise DIA has continued to extend its own label and exclusive ranges, ensuring that they remain contemporary and stylish. As a result, they accounted for 21 per cent of sales in 1997/98. Woodstains, paints, wallpapers and bath accessories were particularly successful. As part of the stronger emphasis on outdoor living, DIA introduced its own exclusive Champion range of mowers and new ranges of garden furniture and barbecues.

Customer service For the second year running, DIA won a BT/Daily Telegraph customer service award. Service innovations currently on trial include the Design Wizard, an interactive console that allows customers to select a roomset on screen and try the effect of different wallcoverings and paints.

Logistics DIA continues to reduce logistics costs. A key cash flow driver has been its success in reducing stockholding while improving stock availability.

Outlook DIA expects to make continued improvement in profit and cash flow performance. The contribution to sales and margins from own label and exclusive lines is expected to rise still further in 1998, boosted by further product innovations. Sales will also benefit from a higher level of customer communications, promotions and advertising, funded by the withdrawal of the Bonuscard in March/April.

Growing consumer interest in innovative products to achieve an individual look has been boosted by Do It All fashion paints and special effect paints.

Boots Healthcare International

COMMENT ÇA VA ?

Continuing high sales growth brought Boots Healthcare International (BHI) into profit – while sustaining further high levels of investment in marketing and new product development. Sales increased by 12.4 per cent to £273.7 million; and like for like growth, excluding acquisitions and exchange rate effects, was 9.4 per cent. The operating profit before exceptionals of £1.2 million (1996/97: £6.6 million loss) was all the more creditable given some adverse impact resulting from sterling's strength against major currencies worldwide.

Strategy BHI develops and markets self-medication brands predominantly for over the counter (OTC) sale in over 130 countries. It is focusing on three core categories – skincare, analgesics and cough and cold – which together make up about half the OTC market. Core brands now account for some 70 per cent of BHI's sales and it continues to seek further opportunities in its chosen categories through a strong programme of new product development, launches in new geographic markets and appropriate acquisitions.

Acquisitions In October 1997 BHI acquired a leading German medical skincare company, Hermal, for £176 million. This gives it a strong foothold in Germany, one of the most attractive European OTC medicines markets. Hermal's products, which are well established and well regarded in Germany and the UK, complement BHI's existing skincare brands.

Structure Following the Hermal acquisition, BHI has concentrated all skincare product development activities in centres of excellence in France and Germany, where the skincare markets are more developed. Rationalisation of products and organisational structure continues. During the year the company closed its manufacturing operations in South Africa and Australia and disposed of its Femfresh business. The 1997/98 accounts include provision for further infrastructure rationalisation to reduce costs and streamline product delivery.

Products New product development is a major growth driver in the OTC market and BHI maintained its momentum by launching 60 new products and line extensions during the year. These included 32 new products in the Lutsia and Onagrine skincare ranges. The successful launch of Sugar Free Strepsils showed that this 40 year old brand is still very extendable. The Nurofen range is also expanding: the new caplet shape increased sales in the UK and Nurofen Advance is an innovative fast-acting formulation. Nurofen continued its march across Europe and is now available in over 40 countries.

Outlook With skincare businesses in the five major European markets, BHI plans to introduce in international markets a select range of French and German products from 1998 onwards. Nurofen and Strepsils sales continue to grow strongly, with Nurofen expected to take UK market leadership during 1998. Increasing focus on core brands and continuing cost reduction are enabling BHI to build substantial value: this should be increasingly evident in its profit performance while the business maintains high levels of investment.

Boots Healthcare International		
Managing Director, Barry Clare		
Sales £m		273.7
Increase %*		23.7
Profit £m (before exceptionals)		1.2
Sales split*		
Core brands sales	1998	% Increase
Nurofen £m	52.2	26.7
Strepsils £m	55.3	7.8
Skincare £m	82.8	114.0

*comparable exchange rates

Sugar Free Strepsils were launched in the UK and New Zealand to complement existing worldwide Strepsils products.

Boots Contract Manufacturing

I like mine it's appley

Boots Contract Manufacturing (BCM) sales grew 21.3 per cent to £314.9 million – boosted by a full year's contribution from Roval, acquired in March 1997. Like for like growth was 10.6 per cent. Operating profit rose 25.4 per cent to £24.7 million before exceptional items. The underlying profit increase, excluding Roval and currency effects, was 14.6 per cent. Sterling's strength against other currencies had some impact on sales and profits; but, although BCM has substantial sales in continental Europe, flexible use of its manufacturing operations in France, Germany and Spain enabled it to keep exchange effects within acceptable limits.

Boots Contract Manufacturing	
Managing Director, John Watson	
Sales £m	314.9
Increase %	21.3
Profit £m (before exceptionals)	24.7
Increase %	25.4
Sales split	**%**
Boots The Chemists	47
Boots Healthcare International	14
Third party	39

Strategy BCM has a twin-track growth strategy based on its two customer groups: internal Boots customers – Boots The Chemists (BTC) and Boots Healthcare International (BHI) – and third party customers in the UK and continental Europe. It is working to build deeper partnerships in new product development with BTC and cost effective manufacturing with BHI, helping them to develop and produce innovative new products that differentiate them from competitors. It aims to grow its third party business by providing reliable technical support to major European and multinational companies, focusing on long term relationships with larger businesses that require the highest standards of service and quality.

Sales Sales to BTC were particularly buoyant, driven by a succession of innovative new products and ranges. These included Kyusu toiletries, the Spa haircare range and the ACT teenage skincare range. Business from BASF, resulting from BASF's purchase of Boots Pharmaceuticals, continued to reduce as planned. The decline in this business has been more than offset by growth in sales to BHI – up 36.9 per cent in two years. By contrast third party sales were constrained to some extent by currency factors but more significantly by BCM's strategic decision to forego low margin business and focus on major blue chip customers.

Overseas companies In France, Roval increased sales ahead of plan and maintained market share but profits reflected tightening margins in highly competitive conditions. BCM Cosmétique performed well, increasing sales and profits. BCM Kosmetik completed a dramatic turnaround since its acquisition by BCM two years ago and showed a good profit.

Capital investment BCM's confidence in the future was reflected in a record level of investment in new manufacturing, packing and quality control capacity. Excluding the previous year's spending on the £19 million energy centre like for like capital investment grew 24.4 per cent to £26 million.

Outlook As well as investing in new capacity, marketing and support systems, BCM is re-engineering its supply chain in a major project to improve service and bring further reductions in costs. Combined with increased innovation from more effective product development, this will result in continued sales growth, with profits enhanced by driving higher volumes through existing infrastructure.

Innovative products and packaging developed by BCM include the Kyusu range and the relaunch of 17 cosmetics.

Boots Properties

You see you do like shopping!

In an outstandingly successful year, Boots Properties benefited substantially from investments made since the early 1990s. Sales grew 46.5 per cent to £149.6 million and operating profit rose 5.4 per cent to £76 million. In addition the disposal of investment and non core properties generated profits of £38.7 million. These figures understate the scale of the achievement: much of the value added through development and astute investment purchases is taken to reserves. The business generated £252.1 million of free cash flow during the year.

Boots Properties	
Managing Director, Peter Baguley	
Sales £m	149.6
Increase %	46.5
Profit £m	76.0
Increase %	5.4
Boots Properties store portfolio	
Single units	670
Multi-tenanted properties	94

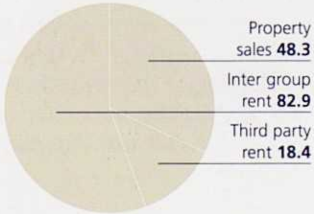
Strategy Boots Properties owns and manages freeholds and leaseholds on over 750 of the group's stores. It also applies its property development and management skills in the wider retail property market. Its objectives are to give Boots retail businesses readier access to the locations they seek and to create value for shareholders through sound investment. Its investment strategy is designed to exploit prevailing conditions in the property market. Until early 1997, conditions favoured a policy of buying and developing properties to hold for rental income. Since then, sharply rising prices have suited a strategy of realising value by selling properties. Until conditions change, the business has stopped seeking new development opportunities in major shopping centres and retail parks, resulting in a reduction of staff and is now focusing exclusively on providing innovative solutions to the property needs of other Boots businesses.

Sales Rental income from third parties remained flat at £18.4 million: rising rents, particularly for edge of town properties, were offset by the loss of income from properties sold during the year. During the year the business took the opportunity of a buoyant market to sell some shopping centres and retail parks at premium prices for a total of £301.1million. Some 55 per cent of this came from properties developed by Boots Properties and the balance from investment properties. The largest sale was the Nottingham development completed in September 1997, which raised £44.7 million net. Good progress was made in helping Do It All to dispose of unwanted properties.

Investment Investment continued at a high level, mainly to complete existing development projects. Total investment was £112.3 million, of which some £16.5 million was on office and warehouse developments for Boots group use. The Hastings town centre shopping development was officially opened by HM The Queen, the Coventry retail development was completed and sold and Durham shopping centre progressed towards completion in 1998. Investment in support of Boots businesses included the purchase of the Boots store in Oxford to secure tenure and the purchase of the former Sainsbury store in Brentwood.

Outlook Since its formation in 1989, Boots Properties has demonstrated its ability to create value through one full turn of the property cycle. Disposals are continuing but will taper off as the current phase of the cycle comes to an end. The business will respond quickly and flexibly to take full advantage of changing conditions; it will continue to benefit from its in-house team of market analysts, whose research creates competitive advantage in identifying opportunities.

Sales £m



People

The company's ability to continue growing and creating value depends above all on the creativity, motivation and passion of its staff at all levels. It is devoting substantial resources to developing increasingly capable people and giving them greater freedom to take decisions and create more value.

INVESTOR IN PEOPLE

POSITIVE ABOUT DISABLED PEOPLE

Organisational development Over the past year a groupwide project has been identifying the behaviours and capabilities that the company needs to maximise value. To foster these capabilities, each business unit is evolving its own more participative and involving management style, introducing the organisational development and culture changes best suited to its needs.

For example, Boots The Chemists (BTC) has substantially changed the area management structure in its stores to improve effectiveness as an organisation. The new structure is more customer focused, designed to inspire and harness people's energy and imagination and to minimise bureaucratic distractions.

Do It All (DIA) and Boots Contract Manufacturing (BCM) have both introduced self-managed teams to make people feel more involved, valued and stretched and enable them to make a bigger contribution.

The company continues to develop globally, with International Retail Development, Boots Healthcare International and BCM recruiting and developing staff with an international capability.

Training and personal development Boots continues to invest substantially in training and development at all levels. The company now has four Investor in People Awards, held by BTC, DIA, BCM and Boots Properties.

Recruitment Given the strategic importance of attracting outstanding people, the company has revised its graduate recruitment programme – positioning Boots as a high-performing organisation with a great deal to offer to the very best graduates. Competing for talent with all the leading blue chip corporations, it aims to attract people who will be the senior managers of the future. The pace of the graduate development programme has been accelerated, with early exposure to business strategies, broad experience across business units and stretching personal targets.

Pensions Pensions are increasingly important in attracting and retaining good staff: employees and prospective employees are increasingly aware of the need for good schemes. The company has a highly rated pension scheme but nevertheless is currently conducting a fundamental review of its pension provision to ensure that it continues to meet present and future needs.

Community involvement Nearly all business units are now developing corporate community involvement programmes – not least because of the opportunities they provide for managers' personal development. Managers are contributing their skills – and learning new ones – not only in charities but also in civic activities such as town centre management.

Sarah Rudd, Personal Care Food and Baby supervisor – Boots The Chemists.
Keith Lee, team leader Specialised Products – Boots Contract Manufacturing.

Environment

Boots is committed to constant environmental improvement throughout all its operations. To monitor its progress it is developing key performance indicators (KPIs) covering the most significant impacts on the environment from its activities. It is currently refining its data collection and management for these KPIs – embracing energy, transport, global warming, waste, packaging and water consumption.

Energy As part of the company's support for the Government's 'Making a Corporate Commitment' energy efficiency campaign, each business unit has its own energy management structure and agreed energy reduction targets. During 1997/98 the company achieved savings worth £2.1 million through a combination of energy audits, energy saving projects, target setting and staff awareness campaigns. Energy efficiency (kWh/£1,000 turnover) improved by 12.7 per cent – see below right. Specific initiatives included the installation of more efficient door heaters and motor drives in around 800 stores, providing annual savings of some 18.3kWh of energy and 15,500 tonnes of carbon dioxide emissions. The Department of Environment, Transport and the Regions recently published actions taken by Do It All to improve store energy efficiency as a 'best practice' case study.

Packaging Applying the approach developed for the award winning Boots The Chemists (BTC) packaging database, business units across the group identify opportunities to reduce packaging, stay ahead of legislative targets for recycling and waste reduction and save costs. Boots Healthcare International has saved a further 37 tonnes a year of materials used for transit packs. Halfords has taken advantage of advanced moulding technology to reduce the weight of its five litre motor oil bottles by 40g, saving 25 tonnes of plastic a year. Reusable plastic containers for deliveries to BTC stores have enabled Boots Contract Manufacturing to save 54 tonnes of packaging materials a year.

Other initiatives Despite the increasing number of stores, initiatives such as load consolidation to maximise vehicle fill, backloading, aerodynamic trailer design and more efficient computerised vehicle routing have continued to reduce the impact of the Boots delivery fleet.

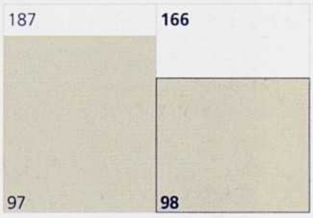
Besides routine recycling activities, the company was able to recycle some 2,500 tonnes of steel from the Nottingham warehouse that was destroyed by fire in October. Substantial quantities of concrete and bricks (6,500 tonnes), steel (750 tonnes), and copper and aluminium cable (25 tonnes) were also recycled during the demolition of the old power station on the Nottingham site.

Building on the success of the World Wide Fund for Nature initiative, BTC is now obtaining its natural sponges from a sustainably farmed source under a scheme endorsed by the Natural History Museum.

Environmental management will continue to be a core activity for Boots, delivering both social and environmental benefits. The establishment of KPIs will help to sustain further improvement in the company's performance.

Key initiatives
Energy savings of over £2m
Key environmental performance indicators introduced
Store initiative saves 15,500 tonnes of CO_2 emissions a year
Anticipating packaging legislation reduces costs

Total company energy use
kWh/£000 Turnover



Community

For the second year running, a MORI poll found that the public rates Boots as the UK's top company for 'its responsible approach to society and the community'. The company's charitable and educational donations, charitable sponsorships and gifts in kind totalled £4.9 million in 1997/98.

During the year Boots won the Government's 'Tackling Drugs Together' award for long standing support of drugs education and prevention initiatives in Nottinghamshire. The company sponsored and hosted the first International Detection and Identification of Drugs Conference, which provided an opportunity for delegates from police forces around the country, HM Customs & Excise and HM Prisons, to learn about the latest developments in drug detection. The conference prompted the establishment of a national drug detection working group.

The unique Boots Recycling Project distributed £2.2 million of merchandise to a record number of charities. During the year the project's partnership with the Nottinghamshire Probation Service – under which offenders sort and repair merchandise which would once have been consigned to landfill – was publicly commended by the Home Secretary.

Two hundred employees signed up as voluntary tutors with Success for All, a pilot scheme in advance of National Literacy Year. Operating in schools on Nottingham's deprived Meadows Estate, this is the UK's largest volunteer tutoring scheme; it has generated massive support and enthusiasm from volunteers, teachers and pupils alike.

Another national pilot, the Boots Family Learning Project, aims to improve parenting skills and the relationships between parents, children and schools, by showing how children's learning can be supported in everyday life. Almost 100 families took part in innovative interactive workshops with particular emphasis on basic literacy and numeracy skills.

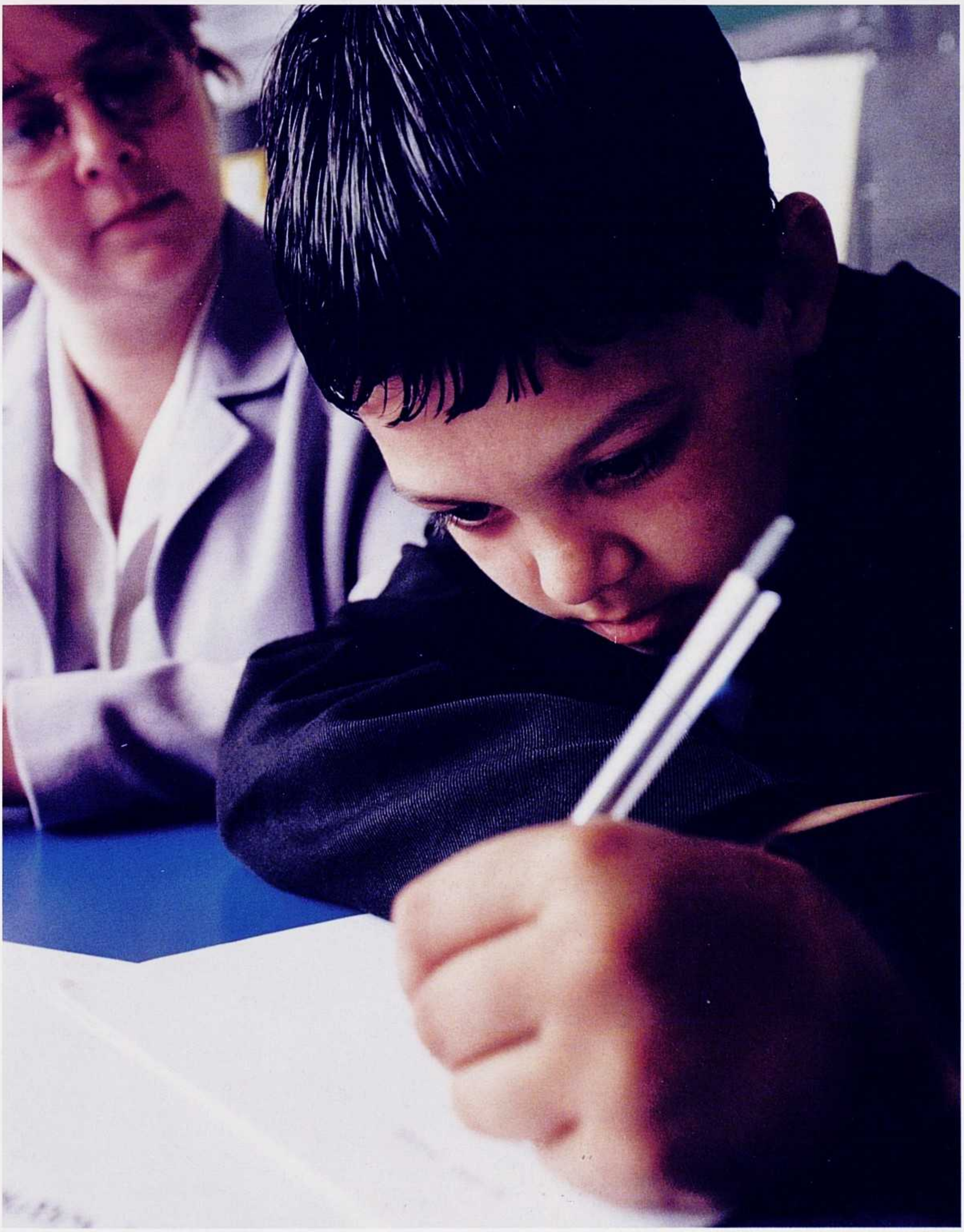
The company's long term partnership with the national charity Early Education develops effective means of supporting parents as their children's first and primary educators. Last year's programme included two national conferences and a highly acclaimed travelling exhibition that explains the vital importance of well planned and resourced early years provision.

Boots has maintained its active involvement in Race for Opportunity, developing and sharing good practice at national and local level. It has hosted seminars for East Midlands employers on employment and purchasing and provided practical and financial support for the first East Midlands Trade Fair for Ethnic Minority Businesses.

The Boots Charitable Trust – with its distinctive collaborative, co-operative, community based approach – focuses on healthcare, economic development, education and family, maternity and child welfare. During the year it made donations totalling £486,407 – mostly in Nottingham and Nottinghamshire but also to appeals in other areas where Boots has a major presence and there was strong backing from the company's local representatives.

Key initiatives
International Drug Detection Conference
£2.2m of merchandise distributed to charities
UK's largest volunteer tutoring scheme
Boots Family Learning Project
Support for Early Education
Race for Opportunity
Trade Fair for Ethnic Minority Businesses

miss listens to me read too



Board of Directors













Sir Michael Angus, 68, chairman. Director since 1994. He is also chairman of Whitbread, deputy chairman of British Airways and a director of NatWest Group. Former chairman of Unilever and president of the CBI.

Lord Blyth of Rowington, 58, deputy chairman and chief executive. Director since 1987, when he joined Boots as chief executive. He is also non-executive director of NatWest Group. Formerly group managing director of Plessey and head of defence sales at the Ministry of Defence.

David Thompson, 55, joint group managing director since 1997 and finance director since 1990. He is also a non-executive director of Cadbury Schweppes. He joined Boots in 1966, appointed finance director of Retail Division 1980 and group financial controller 1989. He is a chartered accountant.

Steve Russell, 53, joint group managing director since 1997 and managing director of Boots The Chemists (BTC) since 1995. He is also a non-executive director of Woolwich. He joined Boots in 1967 and was formerly Boots The Chemists director of merchandise and managing director of Do It All.

John Watson, 56, managing director, Boots Contract Manufacturing. Director since 1996. He joined Boots in 1967 and was director of personnel, Pharmaceuticals Division, before being appointed to his present position in 1991. He is also chairman of Boots Pensions Limited.

Mike Ruddell, 54, personnel director. Director since 1984. He joined Boots in 1966, and has been director responsible for marketing and merchandise in Boots The Chemists and managing director of Boots Properties. He is also a non-executive director of Mansfield Brewery and deputy chairman of Nottingham Trent University.

***Sir Peter Davis,** 56, appointed 1991. Group chief executive of Prudential Corporation, formerly chairman of Reed International and assistant managing director of J Sainsbury. He is also chairman of Business in the Community.

***Fiona Harrison,** 47, appointed 1994. A director of Coats Viyella and chief executive of its Fashion Retail Division, which operates its Jaeger and Viyella retail chains. She was formerly vice-president of Clairol, part of Bristol-Myers Squibb Company.

***Sir Clive Whitmore** GCB CVO, 63, appointed 1994. A non-executive director of Morgan Crucible Company, Racal Electronics and N M Rothschild & Sons. He was formerly permanent secretary at the Ministry of Defence and then at the Home Office.

***Robert Wilson,** 54, appointed 1991. Formerly chief executive of Rio Tinto, became chief executive of RTZ-CRA on the merger of the two companies and subsequently chairman of Rio Tinto.

***Sir Peter Reynolds** CBE, 68, appointed 1986. Former chairman of Ranks Hovis McDougall. Chairman of Pioneer Concrete Holdings and a director of Pioneer International, Avis Europe and Guardian Royal Exchange Assurance.

***Dr John Buchanan,** 54, appointed December 1997. Chief financial officer and a managing director of The British Petroleum Company. Formerly group treasurer and chief executive of BP Finance and chief operating officer and deputy chief executive of BP Chemicals. He is also a member of the Accounting Standards Board.

***John McGrath,** 59, appointed December 1997. Group chief executive of Diageo. He was group chief executive of Grand Metropolitan before GrandMet and Guinness merged in December 1997 to form Diageo. Previously chairman and chief executive of IDV, GrandMet's spirits and wines business. He is also chairman of the Scotch Whisky Association.

*Non-executive director

Contents

Corporate Governance

The company has complied fully with all the provisions of the code of best practice published by the Cadbury Committee on the financial aspects of corporate governance.

The board is aware of the recommendations of the Committee on Corporate Governance (the Hampel Committee) and of the consultation being carried out by the London Stock Exchange about a new, combined code on corporate governance issues and allied amendments to the reporting requirements of the Listing Rules of the Exchange. The company will report to shareholders in accordance with any such new requirements in its next annual report and accounts.

Board Structure
Details of the board of directors are shown on page 36 and in the directors' report on page 49.

In preparation for Lord Blyth's becoming Chairman on 25th July 1998, two Joint Group Managing Directors, Mr S G Russell and Mr D A R Thompson, were appointed on 27th February 1997. When Lord Blyth becomes Chairman, Sir Michael Angus will become Deputy Chairman and he will continue to chair the board's Remuneration Committee and Nominations Committee so as to ensure an appropriate division of responsibilities at the head of the company.

There are four principal board committees all of which operate within written terms of reference. Details of the present composition and the main responsibilities of these committees are as follows:

Board Audit Committee
R P Wilson
Dr J G S Buchanan
Sir Peter Davis
F M Harrison
J B McGrath
Sir Peter Reynolds
Sir Clive Whitmore

The main responsibilities of the Board Audit Committee are:
- to review and advise the board on the interim and annual financial statements.
- to review with the external auditors the nature and scope of their audit and the results of that audit, any control issues raised by them and management's response.
- to make recommendations as to the appointment and remuneration of the external auditors and any question of their resignation or removal.
- to review the scope and results of the internal audit programme and the adequacy of the resources of the internal audit function and to receive an annual report on internal audit matters.

Board Remuneration Committee
Sir Michael Angus
Dr J G S Buchanan
Sir Peter Davis
F M Harrison
J B McGrath
Sir Peter Reynolds
Sir Clive Whitmore
R P Wilson

The main responsibilities of the Board Remuneration Committee are outlined on page 40.

Board Nomination Committee
Sir Michael Angus
Lord Blyth of Rowington
Dr J G S Buchanan
Sir Peter Davis
F M Harrison
J B McGrath
Sir Peter Reynolds
Sir Clive Whitmore
R P Wilson

The main responsibility of the Board Nominations Committee is to consider and make recommendations to the board about the appointment of directors, the standing for re-election of directors and the structure and composition of the board generally.

Board Social Responsibilities Committee
Sir Peter Davis
F M Harrison
M F Ruddell
Sir Clive Whitmore

The main responsibility of the Board Social Responsibilities Committee is to keep under review the company's policies and practices in the areas of social responsibility including those relating to health, safety, the environment, equal opportunities, race relations and employment of the disabled.

Internal Control

The directors are responsible for the group's system of internal financial control. These controls are established in order to safeguard the group's assets, maintain proper accounting records and ensure that financial information used within the business or published is reliable.

The company has an established framework of internal financial controls, the key elements of which are as follows:

- Members of the board have responsibility for monitoring the conduct and operations of individual businesses within the group. This includes the review and approval of business strategies and plans and the setting of key business performance targets. The group has a formal and comprehensive process for the determination of business strategies and this process is co-ordinated and monitored by group headquarters. The executive management responsible for each business are accountable for the conduct and performance of their business within the agreed strategies.
- Business plans provide a framework from which performance commitments have been agreed by group headquarters with each business. These commitments incorporate financial and strategic targets against which business performance is monitored. This monitoring includes the examination of and changes to rolling annual and half year forecasts and monthly measurement of actual achievement against key performance targets and plans. These results are consolidated, appraised and communicated to the board.
- The company has clear requirements for the approval and control of expenditure. Investment decisions involving capital or revenue expenditure are subject to formal detailed appraisal and review according to approval levels set by the board. Significant expenditure of this nature requires approval by a director or the board. Performance reviews are undertaken by the businesses on completion of investments. Operating expenditure is controlled within each business with approval levels for such expenditure being determined by the individual businesses.
- There are clear procedures for monitoring the system of internal financial control. The audit committee meets at least three times a year and its responsibilities are outlined on page 38. It receives reports from the internal audit function on the results of work carried out under an annual risk focused internal audit plan and from the external auditors. It also requests the attendance of business management, as required, to report on controls relating to specific business activity. Internal audit also facilitate an annual process whereby businesses provide certified statements of compliance with internal financial controls, which are supported by summaries of key control activities and an assessment of significant risks, controls and resulting exposures.

On behalf of the board, the audit committee has reviewed the effectiveness of the system of internal financial control. The review revealed that reasonable steps have been taken to ensure that there is a system of internal financial control which is appropriate for a group of this size and diversity. It should be recognised that any such system can, however, provide only reasonable, and not absolute, assurance against material misstatement or loss.

Going Concern

Having made appropriate enquiries, the directors are satisfied that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Review Report by KPMG Audit Plc on Corporate Governance Matters

In addition to our audit of the financial statements, we have reviewed the directors' statements on page 38 and this page on the company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the Listing Rules and their adoption of the going concern basis in preparing the financial statements.
The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform any additional work necessary to express a separate opinion on the effectiveness of either the group's system of internal financial control or corporate governance procedures or on the ability of the group to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial control and going concern on this page, in our opinion the directors have provided the disclosures required by the Listing Rules and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statement on page 38 appropriately reflects the company's compliance with the other paragraphs of the Code specified for our review by the Listing Rules.

KPMG Audit Plc
Chartered Accountants
3rd June 1998

Board Remuneration Committee's Report

Role of the Remuneration Committee

The Board Remuneration Committee consists of the chairman, who chairs the committee, and seven non-executive directors as shown in the corporate governance statement on page 38. The committee, having no members who are executive directors or who have personal financial interest in matters to be decided, is responsible for determining the remuneration, terms and conditions and bonus schemes for the executive directors, having regard to performance. As regards the constitution and operation of the remuneration committee, the company has complied in full throughout the accounting period with Section A of the best practice provisions annexed to the Stock Exchange listing rules.

Remuneration policies

In determining remuneration policies, the committee has given full consideration to the best practice provisions set out in Section B annexed to the Stock Exchange listing rules. Remuneration policies for the executive directors and the senior management team are aligned with the board's governing objective, which is to maximise the value of the company for the benefit of shareholders in terms of total shareholder return represented by share price movement and the value of dividends as if reinvested when paid. Executive bonuses are seen as a means of reinforcing this objective and rewarding executives for their achievement. The practice of granting executive share options has ceased.

Remuneration policies are based on the following foundations:

Pay levels Executive directors' salaries and non-executive directors' fees are positioned at competitive levels in the light of independent assessment of market practices. Bonus schemes provide an opportunity for executives to receive additional rewards if, and only if, business performance reaches specified objectives.

Linkage with business strategy The way that performance is measured for executive directors flows from, and is consistent with, business strategy and therefore a significant element of an executive director's bonus is tied to generating long term returns for shareholders which compare well with those of other leading companies.

The role of equity Share ownership provides an effective way to align the interests of shareholders and executives. Therefore, half of an executive director's long term bonus is payable in shares of the company.

Directors' remuneration

Analyses of emoluments, long term bonuses and gains on share options are shown on pages 41 to 43. Details of shareholdings and outstanding share options are shown on page 44 and pension entitlements on page 45.

Components of emoluments

Salaries and fees Salaries of executive directors reflect the scope of, and changes in, their responsibilities and are reviewed annually by the remuneration committee with reference to external comparisons. The board sets the level of remuneration of the chairman and non-executive directors by reference to practice in other leading companies.

Short term executive bonus scheme This scheme rewards executive directors for achieving operating efficiencies and profitable growth in the relevant year by reference to challenging but achievable forecasts derived at the beginning of the year from strategic plans.

During 1997/98, the performance criterion was profit after tax. A bonus of 10% of base salary was payable for performance at 95% of profit after tax target rising to 25% of salary for performance at target level and to a maximum of 35% when profit after tax was 110% of target. In 1997/98 a bonus equal to 31% was earned by executive directors.

Short term profit related bonus schemes Profit related bonus schemes cover various groups of staff, including executive directors. These schemes are based on performance against target and there is a maximum payment of £6,000 to any individual.

Other benefits Staff, including executive directors, who have completed ten years' service are entitled to a long service payment. This is based upon the level of salary and the number of years' service, up to a maximum of £4,000 per annum. Payments under this scheme are being reduced gradually and will cease in the year 2001. Executive directors receive other benefits, including a company car, sick pay and holidays, which overall provide a reasonably competitive package comparable with that provided by other major companies.

Analysis of individual directors' emoluments

£000	Salaries and fees	Short term bonuses	Other benefits	Total 1998	Total 1997
Sir Michael Angus (chairman)	150	–	–	150	120
Lord Blyth (highest paid director)	525	169	15	709	701
Dr J G S Buchanan (from 18th December 1997)	8	–	–	8	–
Sir Peter Davis	27	–	–	27	27
F M Harrison	26	–	–	26	26
J B McGrath (from 18th December 1997)	8	–	–	8	–
Sir Peter Reynolds	27	–	–	27	27
M F Ruddell	240	80	17	337	314
S G Russell	300	99	18	417	341
D A R Thompson	300	99	19	418	373
J J H Watson (from 26th September 1996)	185	63	15	263	131
B E Whalan (to 31st July 1997)	81	21	4	106	249
Sir Clive Whitmore	25	–	–	25	25
R P Wilson	27	–	–	27	27
	1,929	531	88	2,548	2,361

In addition a payment was made to Mr B E Whalan of £155,000 in respect of loss of office and an additional payment of £108,000 in respect of Mr Whalan was made to the Boots Pension Scheme. During the period following his departure Mr Whalan has provided services in connection with international retailing for which payment of £120,000 has been made.

Board Remuneration Committee's Report continued

Long term bonus scheme This scheme provides a direct link between the pay of executive directors and the creation of value for shareholders. Company performance is measured over rolling, four year cycles, in terms of total shareholder return relative to a peer group of ten other leading companies. Transitional performance cycles began on 1st April 1995, the first one ended on 31st March 1997 and a further cycle ended on 31st March 1998. Four year cycles will end on an annual basis commencing 31st March 1999. Accordingly, executive directors have the opportunity of receiving long term bonus payments annually.

During the cycle ended 31st March 1998, the chosen peer group was:

Great Universal Stores
Kingfisher
Marks and Spencer
Reckitt & Colman
J Sainsbury
Sears
Smith & Nephew
SmithKline Beecham
Tesco
W H Smith

The peer group is reviewed before each performance cycle to maintain its relevance. For the cycle which commenced in April 1998 the committee has decided to substitute Asda for Argos, who were included for the cycle which commenced in April 1997.

The amount of bonus depended upon the company's comparative performance against its peer group on the following scale:

Comparative position in peer group league table	1	2	3	4	5	6	7	8	9	10	11
Bonus % of average annual salary	90	90	90	65	55	45	35	25	Nil	Nil	Nil

For the cycles which commenced in April 1997 and thereafter there will be nil bonus if the position in the above league table is eighth or lower.

After the end of each performance cycle, one half of any bonus earned will be paid in cash. The value of the remaining half will be converted into an equivalent number of shares in the company in respect of which the executive director will have conditional rights. The number of shares will be calculated by dividing half of the value of the long term bonus by the quotation for a share as derived from the official daily list of the London Stock Exchange on the date for payment of the cash proportion (in 1998, being 22nd June). The executive director will normally become entitled to receive those shares only after remaining employed for a further three years. If a director leaves the company during the three year period (except in the case of normal retirement, disability or death), his conditional entitlement to those shares will lapse.

In respect of the three year period to 31st March 1998, a long term bonus equal to 65% of average annual salary was earned by executive directors as follows:

£000	Cash	Value of vested shares	Total cash 1998	Total cash 1997
Lord Blyth	**162**	–	**162**	157
M F Ruddell	**71**	–	**71**	67
S G Russell	**77**	–	**77**	66
D A R Thompson	**87**	–	**87**	81
J J H Watson	**30**	–	**30**	15
B E Whalan (to 31st July 1997)	**94**	–	**94**	53
	521	–	**521**	439

Each executive director will also be awarded conditional rights to receive ordinary shares in the company having a market value on 22nd June 1998 equivalent to the cash bonus shown above. The director will normally become entitled to receive those shares in June 2001 if the conditions are satisfied. No shares vested during the year.

Mr B E Whalan became entitled on 31st July 1997 to the award of the remaining half of bonus earned in respect of the two year cycle ended 31st March 1997 amounting to £53,000. The remuneration committee allowed this to be taken in cash and it is included in the table above. Bonus due in respect of the cycle ended 31st March 1998 amounted to £41,000 and will be paid wholly in cash.

Details of the numbers of shares which have been conditionally awarded during the year under the long term bonus scheme for the cycle which ended on 31st March 1997 are shown below:

	Conditional entitlement 1998	Conditional entitlement 1997
Lord Blyth	22,263	–
M F Ruddell	9,525	–
S G Russell	9,570	–
D A R Thompson	11,475	–
J J H Watson	4,876	–
B E Whalan (to 31st July 1997)	–	–
	57,709	–

Gain on share options

Details of executive and SAYE share options are shown on pages 44 and 45. Gains on share options represent the number of shares under options which have been exercised, valued at the difference between the market price at the date of exercise and the exercise price paid.

Details of gains on share options exercised during the year are as follows:

	Exercise price	Number of shares	Market price at date of exercise	Gain 1998 £000	Gain 1997 £000
	437p	100,000	719p	282	
	438p	95,000	719p	267	
	531p	20,000	877p	69	
	482p	27,500	910p	117	
Lord Blyth				735	396
	399p	17,500	739p	60	
	437p	5,000	739p	15	
	438p	45,000	719p	126	
	531p	5,000	831p	15	
	482p	35,000	910p	150	
	352p	2,130	792p	9	
M F Ruddell				375	142
	286p	10,000	739p	45	
	399p	35,000	739p	119	
	437p	20,000	841p	81	
	531p	5,000	841p	15	
S G Russell				260	–
	438p	45,000	739p	135	
	531p	70,000	837p	214	
D A R Thompson				349	170
	399p	17,500	841p	77	
	437p	22,500	841p	91	
	438p	5,000	841p	20	
	531p	5,000	841p	16	
	482p	12,500	895p	52	
J J H Watson				256	–
	350p	2,182	801p	10	
	438p	32,500	719p	91	
	531p	7,500	719p	14	
B E Whalan				115	–
Total				2,090	708

During the year SAYE options held by Mr B E Whalan in respect of 2,437 shares lapsed.

Board Remuneration Committee's Report continued

Directors' shareholdings and share options

The beneficial interests of the directors and their families in the share capital of the company at 31st March 1998 are shown below. The company's register of directors' interests, which is open to inspection, contains full details of directors' interests in the company's shares.

Shareholdings

	Ordinary shares 1998	Ordinary shares 1997
Sir Michael Angus	**3,348**	3,348
Lord Blyth	**288,075**	214,269
Dr J G S Buchanan	**–**	–*
Sir Peter Davis	**3,256**	3,194
F M Harrison	**1,061**	1,041
J B McGrath	**–**	–*
Sir Peter Reynolds	**3,609**	3,557
M F Ruddell	**52,209**	32,763
S G Russell	**46,417**	21,327
D A R Thompson	**79,081**	48,959
J J H Watson	**55,193**	22,371
Sir Clive Whitmore	**1,592**	1,562
R P Wilson	**2,000**	2,000

*at date of appointment.

In addition, Sir Peter Reynolds has a non-beneficial interest in 1,300 (1997 1,300) ordinary shares. All directors are also deemed to have an interest in the 520,593 ordinary shares of the company held by the Boots ESOP Trust Ltd established to facilitate the operation of the company's executive bonus schemes. No director holds any loan capital. Directors' shareholdings on 3rd June 1998 remain unchanged.

Share Options

An analysis of the number of outstanding directors' share options at each exercise price is as follows:

Under SAYE scheme

	350p	**410p**	**421p**	**485p**	**588p**	**1998 Total**	1997 Total
Lord Blyth	**1,971**	**841**	**–**	**–**	**–**	**2,812**	2,812
M F Ruddell	**–**	**841**	**–**	**–**	**663**	**1,504**	2,971
S G Russell	**–**	**–**	**4,097**	**–**	**–**	**4,097**	4,097
D A R Thompson	**–**	**–**	**–**	**1,422**	**1,760**	**3,182**	1,422
J J H Watson	**–**	**–**	**–**	**3,556**	**–**	**3,556**	3,556

During the year SAYE options in respect of 1,760 shares were granted to Mr D A R Thompson. Mr M F Ruddell exercised options in respect of 2,130 shares and further shares of 663 were granted to him.

Under executive scheme

	1998 Total	1997 Total
Lord Blyth	–	242,500
M F Ruddell	–	107,500
S G Russell	–	70,000
D A R Thompson	–	115,000
J J H Watson	–	62,500

No executive options lapsed during the year and no new ones were granted. The directors exercised all their outstanding executive share options by 31st March 1998.

Information on the company's share option schemes, including dates from when options are exercisable and expiry dates, is shown in note 21. The market price of the company's shares at 31st March 1998 was 958p and the range of market prices during the year was 676p to 963p.

Directors' interests in share options on 3rd June 1998 remain unchanged.

Pension entitlement

All executive directors receive pension entitlements from the company's principal UK defined benefit pension scheme, referred to in note 25, and supplementary pension arrangements which provide additional benefits aimed at producing a pension of two-thirds final base salary. Five executive directors are members of the pension scheme and non-executive directors do not participate. There are no money purchase schemes. Pension entitlement is calculated only on the salary element of remuneration. The chief executive is entitled to the same level of pension benefits enjoyed by other executive directors despite his shorter service but after adjusting for pensions arising from earlier employment.

Details of pensions earned by the executive directors are shown below.

	Age at 31st March 1998	Directors' contributions during the year £000	Increase in accrued pension entitlement during the year £000	Total accrued pension entitlement at 31st March 1998 £000
Lord Blyth (highest paid director)	57	25	31	277
M F Ruddell	54	11	14	133
S G Russell	53	14	32	158
D A R Thompson	55	14	23	172
J J H Watson	56	9	24	108
B E Whalan (to 31st July 1997)	53	3	–	71

Mr B E Whalan's accrued pension as at 31st March 1997 was £86,000 per annum payable from age 60. He was granted an immediate early retirement pension of £71,000 per annum from 1st August 1997.

The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year. No account is taken of any retained benefits from previous employments which will act to reduce the benefits shown. The increase in accrued pension during the year excludes any increase for inflation. Members of the scheme have the option to pay additional voluntary contributions; neither the contributions nor the resulting benefits are included in the above table.

The normal retirement age is 60. Early retirement is available subject to Trustee consent and a reduction in the accrued pension. Under the current early retirement terms the pension can be drawn from age 59 without reduction.

On death after retirement spouses' pensions of two-thirds of members' pensions and children's pensions of two-ninths of members' pensions for up to three dependent children are payable (subject to Inland Revenue limits).

Pensions in payment are guaranteed to be increased annually by 5% or the increase in the Index of Retail Prices (RPI) if less. Additional increases may be granted at the discretion of the Trustees and subject to the consent of the company.

Any transfer value calculations would make allowance for discretionary benefits including pension increases and early retirement.

Contracts of service

The chairman has a fixed term service contract with the company which expires in July 1998. None of the non-executive directors has a service contract, including Dr J G S Buchanan, Ms F M Harrison, Mr J B McGrath and Sir Clive Whitmore who are standing for reappointment as directors at the annual general meeting.

Each executive director has a service contract which is terminable by the company on two years' notice including Mr M F Ruddell who is standing for reappointment at the annual general meeting. All such contracts terminate when the director in question reaches the age of 60. The remuneration committee considers that it is appropriate for executive directors to have a service contract on such terms having regard to their seniority and value to the company and the generally prevailing practice among comparable companies. If any service contract were to be terminated by the company giving less than the contractual period of notice, the requirement for the director to mitigate his loss would be taken into account in determining any resulting compensation.

It is recognised that directors may be invited to become non-executive directors of other companies and that the additional experience and knowledge that this brings will benefit the company. Accordingly, the policy is to allow executive directors to accept up to two such appointments where no conflict of interest arises and to retain the fees received.

Signed for the remuneration committee on behalf of the board:

Sir Michael Angus
Chairman

Directors' Responsibilities Statement

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the profit or loss for the financial year and of the state of affairs of the company and the group at the end of that period. The directors are of the opinion that suitable accounting policies have been used and applied consistently, applicable accounting standards have been followed, and reasonable and prudent judgements and estimates have been made. The financial statements have been prepared on a going concern basis. The directors have a responsibility to ensure that the company and its subsidiaries have suitable internal controls for maintaining adequate accounting records, for safeguarding the assets of the group, and for preventing and detecting fraud and other irregularities.

Auditors' Report

Report of the Auditors to the members of The Boots Company PLC
We have audited the financial statements on pages 50 to 75. We have also examined the amounts disclosed relating to emoluments, share options, long term incentive scheme interests and directors' pension entitlements which form part of the board remuneration committee's report on pages 40 to 45.

Respective responsibilities of directors and auditors As described on page 46, the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31st March 1998 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Birmingham
3rd June 1998

Directors' Report

The directors of The Boots Company PLC present their annual report to shareholders, together with the audited financial statements for the year ended 31st March 1998.

Principal activities

The group's principal activities during the year were:
- retailing of chemists' merchandise, autoparts and DIY products.
- the provision of opticians' services.
- the development, manufacture and marketing of healthcare and consumer products.
- property investment, development and management.

Further information on the group's continuing activities is provided on pages 12 and 13.

Business review and future developments

A review of group activities during the year and likely future developments are dealt with in the Chief Executive's Review and other business reviews on pages 6 to 31.

Group results

The group profit and loss account for 1998 shown on page 50 includes the following details:

	1998 £000	1997 £000
Turnover	**5,021.9**	4,578.0
Profit on ordinary activities before exceptional items and taxation	**553.2**	536.2
Profit on ordinary activities before taxation	**431.9**	571.1

Appropriations

The directors recommend the payment of a final dividend of 15.6p per share which, if approved by shareholders, will be paid on 21st August 1998 to shareholders registered on 19th June 1998. When added to the interim dividend of 6.7p paid on 6th February 1998, this makes a total dividend payment for the year of 22.3p per share (1997 64.7p per share, including 44.2p per share paid as a second interim). Payment of these dividends requires £203.4m (1997 £586.1m), leaving a profit of £60.6m (1997 loss £192.8m) retained in the business.

Group structure

On 27th August 1997, the disposal of A G Stanley to venture capital group Alchemy Partners was completed.
On 1st October 1997, Boots Healthcare International acquired a leading German medical skincare company, Hermal Kurt Herrman oHG, from Merck KGaA along with the rights to certain other Merck dermatology products.

On 11th December 1997 the group acquired the Minor Group's interest in the health and beauty stores in Thailand.

On 20th January 1998, Boots The Chemists acquired the Hayes Conyngham & Robinson chemists chain in The Republic of Ireland.

On 6th April 1998, Boots The Chemists acquired Connors Holdings Ltd, a privately owned retail pharmacy chain with stores in Northern Ireland, The Republic of Ireland, England and Wales.

Share capital

Details of changes in the share capital are shown in note 21 to the financial statements on page 71.
At the annual general meeting on 24th July 1997, shareholders authorised the company to make market purchases of its own ordinary shares of 25p each. No such purchases were made during the year.

At the forthcoming annual general meeting on 23rd July 1998, shareholders will be invited to renew the company's authority to make market purchases. The authority will be limited to the purchase of not more than 91.3m ordinary shares, being approximately 10% of the ordinary shares in issue at the date of this report; the maximum price payable to be 105% of the average of the closing mid market quotations for the five business days before the purchase, with the minimum price being the nominal value, exclusive of any expenses payable by the company.

Shareholders

As at 1st June 1998 the register maintained by the company under Section 211 of the Companies Act 1985 contains a notification to the company that the Prudential Corporation group of companies holds 3.3% of the issued ordinary share capital of the company.

Fixed assets
The directors are of the opinion that the market value of the group's properties at 31st March 1998 was not materially different from that stated in the financial statements.

Payment of suppliers
It is the policy of the company to agree appropriate terms and conditions for its transactions with suppliers (by means ranging from standard written terms to individually negotiated contracts) and that payment should be made in accordance with those terms and conditions, provided that the supplier has also complied with them.

The number of days purchases outstanding at 31st March 1998 was 26 (1997 25).

Staff
The company continues to involve staff in the decision-making process and communicates regularly with them during the year. Their involvement in the company's performance is encouraged with employee bonus and share schemes. The involvement extends to the board of Boots Pensions Ltd, on which there are three employee representatives. The company's aim for all members of staff and applicants for employment is to fit the qualifications, aptitude and ability of each individual to the appropriate job, and to provide equal opportunity, regardless of sex, religion or ethnic origin. The company does all that is practicable to meet its responsibility towards the employment and training of disabled people. Where an employee becomes disabled, every effort is made to provide continuity of employment in the same job or a suitable alternative. Further information is shown on page 32.

Charitable and political donations
The following political contributions were made during the year: £2,000 to the Liberal Democrat Health Forum, £3,000 to the Conservative Women's Association and £2,000 to Industry Forum, a body affiliated to the Labour Party.

Donations for charitable and educational purposes in the UK for the year were £2,680,000 (1997 £2,126,000). Further information on community relations is shown on page 34.

Directors
Details of directors in office on 31st March 1998 are shown on page 36. Mr B E Whalan was a director until his retirement on 31st July 1997.

Ms F M Harrison, Mr M F Ruddell and Sir Clive Whitmore retire by rotation at the annual general meeting in accordance with Article 87 and offer themselves for reappointment.

Dr J G S Buchanan and Mr J B McGrath, having been appointed on 18th December 1997 retire at the annual general meeting in accordance with Article 86 and offer themselves for reappointment.

Mr R P Wilson is retiring as a director of the company after the annual general meeting on 23rd July 1998.

Information on service contracts and details of the interests of the directors and their families in the share capital of the company at 31st March 1998 are shown in the Board Remuneration Committee's Report on pages 44 and 45.

Auditors
A resolution to reappoint KPMG Audit Plc as auditors and to authorise the directors to fix their remuneration will be proposed at the annual general meeting.

By order of the board
3rd June 1998
I A Hawtin
Secretary

Group Profit and Loss Account

For the year ended 31st March 1998

	Notes	Before exceptional items 1998 £m	Exceptional items (note 3) 1998 £m	Total 1998 £m	Before exceptional items 1997 £m	Exceptional items (note 3) 1997 £m	Total 1997 £m
Turnover							
Continuing operations – excluding acquisitions		**4,950.8**	**–**	**4,950.8**	4,455.7	–	4,455.7
– acquisitions		**24.8**	**–**	**24.8**	–	–	–
Turnover from continuing operations		**4,975.6**	**–**	**4,975.6**	4,455.7	–	4,455.7
Discontinued operations		**46.3**	**–**	**46.3**	122.3	–	122.3
Total turnover	1	**5,021.9**	**–**	**5,021.9**	4,578.0	–	4,578.0
Operating profit							
Continuing operations – excluding acquisitions		**536.7**	**7.9**	**544.6**	503.5	8.6	512.1
– acquisitions		**5.5**	**(2.4)**	**3.1**	–	–	–
Operating profit from continuing operations		**542.2**	**5.5**	**547.7**	503.5	8.6	512.1
Discontinued operations		**(4.2)**	**–**	**(4.2)**	(11.7)	–	(11.7)
Total operating profit	1,2	**538.0**	**5.5**	**543.5**	491.8	8.6	500.4
Profit/(loss) on disposal of fixed assets	3						
Continuing operations		**–**	**47.1**	**47.1**	–	11.3	11.3
(Loss)/profit on disposal of businesses	4						
Discontinued operation		**–**	**(173.9)**	**(173.9)**	–	15.0	15.0
Profit on ordinary activities before interest		**538.0**	**(121.3)**	**416.7**	491.8	34.9	526.7
Net interest	5	**15.2**	**–**	**15.2**	44.4	–	44.4
Profit on ordinary activities before taxation		**553.2**	**(121.3)**	**431.9**	536.2	34.9	571.1
Tax on profit on ordinary activities	6	**(167.2)**	**(2.0)**	**(169.2)**	(175.0)	(3.3)	(178.3)
Profit on ordinary activities after taxation		**386.0**	**(123.3)**	**262.7**	361.2	31.6	392.8
Equity minority interests		**1.3**	**–**	**1.3**	0.5	–	0.5
Profit for the financial year attributable to shareholders	7	**387.3**	**(123.3)**	**264.0**	361.7	31.6	393.3
Dividends	8			**(203.4)**			(586.1)
Profit/(loss) retained				**60.6**			(192.8)
Earnings per share	9	**42.6p**	**(13.6)p**	**29.0p**	39.5p	3.4p	42.9p

Other Primary Statements of the Group

For the year ended 31st March 1998

Statement of Total Recognised Gains and Losses

	1998 £m	1997 £m
Profit for the financial year attributable to shareholders	**264.0**	393.3
(Deficit)/surplus on revaluation of properties	**(1.4)**	27.1
Currency translation differences on foreign currency net investments	**(13.7)**	(10.4)
Other gains and losses	**–**	0.3
Total recognised gains and losses for the year	**248.9**	410.3

Currency translation differences are shown net of tax of £1.3m (1997 £Nil).

Note on Historical Cost Profits and Losses

	1998 £m	1997 £m
Reported profit on ordinary activities before taxation	**431.9**	571.1
Realisation of property revaluation surpluses/(deficits)	**64.4**	(3.1)
Difference between historical cost depreciation charge and actual charge for the year calculated on revalued amounts	**0.2**	0.2
Historical cost profit on ordinary activities before taxation	**496.5**	568.2
Historical cost profit/(loss) retained	**125.2**	(195.7)

Reconciliation of Movements in Shareholders' Funds

	1998 £m	1997 £m
Total recognised gains and losses for the year	**248.9**	410.3
Dividends	**(203.4)**	(586.1)
New share capital issued (net of expenses)	**11.8**	7.7
Repurchase of shares	**–**	(300.0)
Goodwill purchased	**(189.3)**	(124.5)
Goodwill released on disposal of businesses and intangible fixed assets	**121.5**	4.4
Scrip dividends	**27.8**	8.3
Net increase/(decrease) in shareholders' funds	**17.3**	(579.9)
Opening shareholders' funds	**1,621.6**	2,201.5
Closing shareholders' funds	**1,638.9**	1,621.6

Balance Sheets

31st March 1998

	Notes	Group 1998 £m	Group 1997 £m	Parent 1998 £m	Parent 1997 £m
Fixed assets					
Intangible assets	10	**29.3**	33.8	**3.0**	3.2
Tangible assets	11	**1,664.9**	1,769.7	**609.2**	584.8
Investments	12	**2.6**	0.5	**1,619.4**	944.3
		1,696.8	1,804.0	**2,231.6**	1,532.3
Current assets					
Stocks	13	**709.3**	667.3	**194.8**	186.1
Debtors falling due within one year	14	**386.9**	347.2	**2,287.1**	545.7
Debtors falling due after more than one year	14	**58.7**	133.2	**415.4**	293.9
Investments and deposits	15	**228.7**	603.0	**205.5**	584.0
Cash at bank and in hand		**35.6**	30.9	**0.1**	119.0
		1,419.2	1,781.6	**3,102.9**	1,728.7
Creditors: Amounts falling due within one year	16	**(1,155.0)**	(1,597.2)	**(1,916.3)**	(1,075.8)
Net current assets		**264.2**	184.4	**1,186.6**	652.9
Total assets less current liabilities		**1,961.0**	1,988.4	**3,418.2**	2,185.2
Creditors: Amounts falling due after more than one year	17	**(258.6)**	(274.9)	**(1,508.9)**	(1,162.5)
Provisions for liabilities and charges	19	**(63.5)**	(92.0)	**(12.5)**	(12.8)
Net assets		**1,638.9**	1,621.5	**1,896.8**	1,009.9
Capital and reserves					
Called up share capital	20,21	**228.2**	226.5	**228.2**	226.5
Share premium account	20	**243.8**	233.7	**243.8**	233.7
Revaluation reserve	20	**286.1**	351.9	**–**	–
Capital redemption reserve	20	**36.8**	36.8	**36.8**	36.8
Profit and loss account	20	**844.0**	772.7	**1,388.0**	512.9
Equity shareholders' funds		**1,638.9**	1,621.6	**1,896.8**	1,009.9
Equity minority interests		**–**	(0.1)	**–**	–
		1,638.9	1,621.5	**1,896.8**	1,009.9

The financial statements were approved by the board of directors on 3rd June 1998 and are signed on its behalf by:

Sir Michael Angus
Chairman

Lord Blyth of Rowington
Deputy Chairman and Chief Executive

David Thompson
Joint Group Managing Director and Finance Director

Group Cash Flow Information

For the year ended 31st March 1998

Reconciliation of operating profit to operating cash flows

	Notes	1998 £m	1997 £m
Operating profit		**543.5**	500.4
Exceptional operating items	3	**(5.5)**	(8.6)
Operating profit before exceptional items		**538.0**	491.8
Operating loss of associated undertaking		**–**	0.7
Depreciation and amortisation of tangible and intangible fixed assets		**120.7**	111.8
Loss on disposal of fixed assets, excluding properties		**4.1**	4.9
Increase in stocks, including property development stock		**(53.1)**	(73.5)
Increase in debtors		**(30.1)**	(6.9)
Increase in creditors		**54.0**	9.6
Other non-cash movements		**(0.1)**	1.5
Net cash inflow before expenditure relating to exceptional items		**633.5**	539.9
Exceptional operating cash flows	22	**(27.9)**	(24.8)
Cash inflow from operating activities		**605.6**	515.1

The cash inflow from operating activities includes £1.3m (1997 £2.2m) relating to discontinued operations.

Group cash flow statement

	Notes	1998 £m	1997 £m
Cash inflow from operating activities		**605.6**	515.1
Returns on investment and servicing of finance	22	**(10.5)**	39.1
Taxation		**(232.8)**	(174.4)
Capital expenditure and financial investment	22	**9.1**	(169.6)
Acquisitions and disposals	4	**(190.4)**	(40.4)
Equity dividends paid		**(563.3)**	(169.8)
Cash outflow before use of liquid resources and financing		**(382.3)**	–
Management of liquid resources	22	**371.9**	288.5
Financing	22	**(8.8)**	(258.1)
(Decrease)/increase in cash		**(19.2)**	30.4

Cash is defined as cash in hand and deposits repayable on demand, less overdrafts repayable on demand.

Reconciliation of net cash flow to movement in net (debt)/funds

	Notes	1998 £m	1997 £m
(Decrease)/increase in cash		**(19.2)**	30.4
Cash inflow from decrease in liquid resources	23	**(371.9)**	(288.5)
Cash outflow/(inflow) from change in borrowings and lease financing	23	**20.5**	(34.1)
Movement in net (debt)/funds resulting from cash flows		**(370.6)**	(292.2)
Investments and borrowings of businesses disposed/acquired		**0.4**	(9.9)
Loan notes issued as settlement for acquisition		**(11.3)**	–
Finance lease additions		**(10.4)**	(8.7)
Increase in value of investment in 10.125% bond 2017		**15.1**	13.6
Currency and other non-cash adjustments		**(2.1)**	0.5
Movement in net (debt)/funds during the year		**(378.9)**	(296.7)
Opening net funds		**229.5**	526.2
Closing net (debt)/funds	23	**(149.4)**	229.5

Net (debt)/funds comprises cash, liquid resources, finance leases and all other borrowings.

Accounting Policies

The following accounting policies have been used in dealing with items which are considered material in relation to the group and parent company financial statements.

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards and under alternative accounting rules set out in Schedule 4 to the Companies Act 1985, being prepared under the historical cost convention adjusted by the revaluations of certain properties. However, compliance with SSAP19 'Accounting for investment properties' requires a departure from the requirements of the Companies Act 1985 relating to the depreciation of investment properties as described in note 11 to the financial statements on page 64.

A separate profit and loss account for the parent company has not been presented as permitted by section 230 of the Companies Act 1985.

There have been no changes in accounting policies since the previous annual report. No new accounting requirements have been issued by the Accounting Standards Board which impact on these accounts.

Consolidation

The group financial statements combine the results of the parent undertaking and all its subsidiary and associated undertakings, to the extent of group ownership and after eliminating intra-group transactions.

The results of businesses acquired or disposed of are consolidated from or to the effective dates of acquisition or disposal.

Associated undertakings are those undertakings, not recognised as subsidiaries, in which the group has a participating interest of between 20% and 50% and over whose policies the group is able to exercise a significant degree of influence. The group's share of the results of associated undertakings is included in the profit and loss account and its share of their net assets excluding goodwill is included in investments in the group balance sheet.

In the parent company balance sheet, investments in subsidiary and associated undertakings are stated at cost less provision for permanent diminution in value.

Foreign currencies

The results and cash flows of overseas subsidiaries are translated into sterling on an average exchange rate basis, weighted by the actual results of each month. Assets and liabilities including currency swaps are translated into sterling at the rates of exchange ruling at the balance sheet date.

Exchange differences arising from the translation of the results and net assets of overseas subsidiaries, less offsetting exchange differences on foreign currency borrowings and currency swaps hedging those assets (net of any related tax effects), are dealt with through reserves.

All other exchange differences are dealt with in the profit and loss account.

The cost of the parent company investment in shares in overseas subsidiaries is stated at the rate of exchange in force at the date each investment was made.

Goodwill

Goodwill on acquisitions, being the excess of the cost of investment in subsidiary and associated undertakings over the fair value of net assets acquired, is set off against reserves. Fair values are attributed to the identifiable assets and liabilities that existed at the date of acquisition, reflecting their condition at that date. Adjustments are also made to bring the accounting policies of acquired businesses into alignment with those of the group. The costs of integrating and reorganising acquired businesses are charged to the post-acquisition profit and loss account.

On disposal of a business, any goodwill previously set off against reserves is charged in the calculation of the profit or loss on disposal.

Fixed assets and depreciation

No depreciation is provided on freehold land, investment properties, shop freeholds and shop long leaseholds with more than 50 years to run, nor on assets in the course of construction. In the opinion of the directors, shop properties are maintained to such a standard by a programme of repair and refurbishment that the estimated residual values of these properties, based on the prices prevailing at the time of acquisition or subsequent revaluation, are sufficiently high to make any depreciation charge unnecessary. Any permanent diminution in the value of such properties is charged to the profit and loss account as it arises.

Other tangible fixed assets are written off by equal instalments over their expected useful lives as follows:
Freehold buildings, other than shops – 40 to 66 years
Computer equipment – 3 to 8 years
Motor cars – 4 or 5 years
Other motor vehicles – 3 to 10 years
Fixtures and plant – 5 to 20 years
Shop leasehold properties – Remaining period of lease when less than 50 years
Other leasehold properties – Remaining period of lease

Investment properties are revalued annually and included in the balance sheet at their existing use value.

To qualify as an investment property, over 50% of rental income from the property must derive from non-group tenants.

Profits and losses arising from the disposal of properties which have previously been revalued are calculated by reference to their carrying value.

Intangible assets acquired, which are capitalised only if separately identifiable, are amortised over estimated useful lives of up to a maximum of 20 years. Similar assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred. The carrying value of intangible assets is reviewed annually and any permanent diminution in value charged to the profit and loss account.

Turnover
Turnover comprises sales to external customers (excluding VAT and other sales taxes) and rental income.

Stocks
Stocks are valued at the lower of cost and net realisable value. Cost comprises purchase cost of goods, direct labour and those overheads related to manufacture and distribution based on normal activity levels.

Research and development
Expenditure on research and development, other than on buildings and plant, is charged against profit in the year in which it is incurred.

Pension funding
The company and its UK subsidiaries operate pension schemes under which contributions by employees and by the companies are held in trust funds separated from the companies' finances. Actuarial valuations of the schemes are conducted at three year intervals and include a review of contributions.

The cost of providing pensions is spread over the employees' working lives with the companies. The cost charged to the profit and loss account in any year may not always equal the employer contributions to the pension schemes.

Leases
The rental costs of properties and other assets held under operating leases are charged to the profit and loss account on a straight line basis. Benefits received as an incentive to sign a lease, whatever form they may take, are credited to the profit and loss account on a straight line basis over the lease term or, if shorter than the full lease term, over the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate.

The cost of assets held under finance leases is included under tangible fixed assets and depreciation is provided in accordance with the policy for the class of asset concerned. The corresponding obligations under these leases are shown as creditors. The finance charge element of rentals is charged to the profit and loss account to produce, or approximate to, a constant periodic rate of charge on the remaining balance of the outstanding obligations.

Deferred taxation
A deferred taxation provision is made only where the effects of timing differences between profits as stated in the financial statements and as computed for tax purposes are likely to reverse in the foreseeable future. Advance corporation tax is carried forward to the extent it is expected to be recovered.

No provision is made for any potential liability to corporation tax on capital gains arising on disposals of assets where the liability is expected to be deferred indefinitely.

No provision is made for taxation liabilities which would arise on the distribution of profits retained by overseas subsidiaries and associates as there is no present intention to remit the major part of these profits.

Exceptional items
Exceptional items are those which fall within the ordinary activities of the group and which need to be disclosed by virtue of their size or incidence. Such items are included within operating profit unless they represent profits or losses on the sale or termination of an operation, costs of a fundamental reorganisation or restructuring having a material effect on the nature and focus of the group's operations, profits or losses on the disposal of fixed assets (other than marginal adjustments to depreciation previously charged), or provisions in respect of such items. In these cases, separate disclosure is provided on the face of the profit and loss account after operating profit.

Notes relating to the Financial Statements

1 Segmental information

(i) Turnover by business segment	Notes	Total 1998 £m	Inter-segment 1998 £m	External 1998 £m	Total 1997 £m	Inter-segment 1997 £m	External 1997 £m
Continuing operations							
Boots The Chemists		**3,573.7**	**–**	**3,573.7**	3,313.5	–	3,313.5
Halfords		**435.0**	**0.7**	**434.3**	412.8	0.9	411.9
Boots Opticians		**182.9**	**–**	**182.9**	148.1	–	148.1
Do It All – subsidiary undertaking	a	**337.2**	**–**	**337.2**	254.6	–	254.6
– associated undertaking	a	**–**	**–**	**–**	46.8	–	46.8
Boots Healthcare International	b	**273.7**	**16.5**	**257.2**	243.4	16.0	227.4
Boots Contract Manufacturing		**314.9**	**196.5**	**118.4**	259.5	178.2	81.3
Boots Properties	c	**149.6**	**82.9**	**66.7**	102.1	83.2	18.9
International Retail Development		**5.2**	**–**	**5.2**	–	–	–
		5,272.2	**296.6**	**4,975.6**	4,780.8	278.3	4,502.5
Discontinued operations							
A G Stanley		**46.3**	**–**	**46.3**	109.4	–	109.4
Childrens World		**–**	**–**	**–**	12.9	–	12.9
		5,318.5	**296.6**	**5,021.9**	4,903.1	278.3	4,624.8

Analysis of external turnover	Continuing operations 1998 £m	Discontinued operations 1998 £m	Total 1998 £m	Continuing operations 1997 £m	Discontinued operations 1997 £m	Total 1997 £m
Group profit and loss account	**4,975.6**	**46.3**	**5,021.9**	4,455.7	122.3	4,578.0
Share of associated undertaking	**–**	**–**	**–**	46.8	–	46.8
	4,975.6	**46.3**	**5,021.9**	4,502.5	122.3	4,624.8

a The group results include Do It All as a wholly owned subsidiary undertaking with effect from 14th June 1996 and as an associated undertaking (50% interest) up to this date. In accordance with accounting standards, the group profit and loss account includes the turnover of Do It All as a subsidiary undertaking only.
b Acquisitions contributed £22.0m to the turnover of Boots Healthcare International in the current year (see note 4).
c Boots Properties' turnover includes development income of £49.4m (1997 £0.5m).

(ii) Turnover by geographical segment	Origin 1998 £m	Origin 1997 £m	Destination 1998 £m	Destination 1997 £m
Continuing operations				
UK	**4,757.9**	4,347.5	**4,677.3**	4,286.5
Rest of Europe	**173.1**	96.2	**214.2**	126.2
Rest of World	**71.8**	81.3	**84.1**	89.8
Inter-segment	**(27.2)**	(22.5)	**–**	–
	4,975.6	4,502.5	**4,975.6**	4,502.5
Discontinued operations				
UK	**46.3**	122.3	**46.3**	122.3
	5,021.9	4,624.8	**5,021.9**	4,624.8

Share of associated undertaking turnover for both origin and destination is included in UK.

(iii) Operating profit by business segment	Notes	Before exceptional items 1998 £m	Exceptional items (note 3) 1998 £m	Total 1998 £m	Before exceptional items 1997 £m	Exceptional items (note 3) 1997 £m	Total 1997 £m
Continuing operations							
Boots The Chemists		**443.8**	**–**	**443.8**	426.5	–	426.5
Halfords		**34.2**	**–**	**34.2**	26.8	–	26.8
Boots Opticians		**17.0**	**14.3**	**31.3**	13.8	12.7	26.5
Do It All – subsidiary undertaking	a	**2.5**	**–**	**2.5**	(6.2)	–	(6.2)
– associated undertaking	a	**–**	**–**	**–**	(0.7)	–	(0.7)
Boots Healthcare International	b	**1.2**	**(8.8)**	**(7.6)**	(6.6)	(2.3)	(8.9)
Boots Contract Manufacturing		**24.7**	**–**	**24.7**	19.7	(1.8)	17.9
Boots Properties	c	**76.0**	**–**	**76.0**	72.1	–	72.1
International Retail Development		**(21.2)**	**–**	**(21.2)**	(8.5)	–	(8.5)
Group costs		**(36.0)**	**–**	**(36.0)**	(33.4)	–	(33.4)
		542.2	**5.5**	**547.7**	503.5	8.6	512.1
Discontinued operations							
A G Stanley		**(4.2)**	**–**	**(4.2)**	(11.8)	–	(11.8)
Childrens World		**–**	**–**	**–**	0.1	–	0.1
Operating profit		**538.0**	**5.5**	**543.5**	491.8	8.6	500.4

a The Do It All result for the year to 31st March 1997 includes 50% of Do It All's loss up to 14th June 1996 and 100% after this date.
b Acquisitions contributed £5.7m profit to the result before exceptional items of Boots Healthcare International in the current year.
c Boots Properties' results include development profits of £8.8m (1997 £Nil).

(iv) Operating profit by geographical origin	Before exceptional items 1998 £m	Exceptional items (note 3) 1998 £m	Total 1998 £m	Before exceptional items 1997 £m	Exceptional items (note 3) 1997 £m	Total 1997 £m
Continuing operations						
UK	**572.4**	**6.2**	**538.6**	535.3	9.3	544.6
Rest of Europe	**2.0**	**(0.7)**	**1.3**	(5.0)	(0.7)	(5.7)
Rest of World	**3.8**	**–**	**3.8**	6.6	–	6.6
Group costs	**(36.0)**	**–**	**(36.0)**	(33.4)	–	(33.4)
	542.2	**5.5**	**547.7**	503.5	8.6	512.1
Discontinued operations						
UK	**(4.2)**	**–**	**(4.2)**	(11.7)	–	(11.7)
	538.0	**5.5**	**543.5**	491.8	8.6	500.4

Notes relating to the Financial Statements continued

1 Segmental information continued

(v) Net assets by business segment	1998 £m	1997 £m
Continuing operations		
Boots The Chemists	**657.2**	535.9
Halfords	**106.2**	103.6
Boots Opticians	**42.6**	45.4
Do It All	**90.2**	103.0
Boots Healthcare International	**80.0**	91.5
Boots Contract Manufacturing	**165.5**	171.9
Boots Properties	**866.1**	1,015.7
International Retail Development	**8.8**	(1.4)
	2,016.6	2,065.6
Discontinued operation		
A G Stanley	**–**	38.1
Net operating assets	**2,016.6**	2,103.7
Unallocated net liabilities	**(377.7)**	(482.2)
	1,638.9	1,621.5

Net operating assets include intangible and tangible fixed assets, fixed asset investments, stocks, third party debtors and creditors and inter-segmental trading balances. Unallocated net liabilities include all current taxation balances, dividend creditors, net debt/funds and provisions for liabilities and charges.

(vi) Net operating assets by geographical segment	1998 £m	1997 £m
Continuing operations		
UK	**1,948.3**	2,016.3
Rest of Europe	**44.9**	21.6
Rest of World	**23.4**	27.7
	2,016.6	2,065.6
Discontinued operation		
UK	**–**	38.1
	2,016.6	2,103.7

2 Operating Profit

	Continuing operations 1998 £m	Discontinued operation 1998 £m	Total 1998 £m	Continuing operations 1997 £m	Discontinued operations 1997 £m	Total 1997 £m
Turnover	**4,975.6**	**46.3**	**5,021.9**	4,455.7	122.3	4,578.0
Cost of sales	**(2,651.7)**	**(26.0)**	**(2,677.7)**	(2,356.9)	(65.6)	(2,422.5)
Gross profit	**2,323.9**	**20.3**	**2,344.2**	2,098.8	56.7	2,155.5
Selling, distribution and store costs	**(1,476.7)**	**(22.7)**	**(1,499.4)**	(1,321.6)	(58.3)	(1,379.9)
Research and development costs	**(25.6)**	**–**	**(25.6)**	(20.4)	–	(20.4)
Administrative expenses	**(273.9)**	**(1.8)**	**(275.7)**	(244.0)	(10.1)	(254.1)
Operating loss of associated undertaking	**–**	**–**	**–**	(0.7)	–	(0.7)
Operating profit/(loss)	**547.7**	**(4.2)**	**543.5**	512.1	(11.7)	500.4
Exceptional credits/(charges) included in operating profit						
Cost of sales	**14.3**	**–**	**14.3**	11.1	–	11.1
Selling, distribution and store costs	**(0.7)**	**–**	**(0.7)**	–	–	–
Administrative expenses	**(8.1)**	**–**	**(8.1)**	(2.5)	–	(2.5)
	5.5	**–**	**5.5**	8.6	–	8.6
Gross profit before exceptional items	**2,309.6**	**20.3**	**2,329.9**	2,087.7	56.7	2,144.4
Operating profit/(loss) before exceptional items	**542.2**	**(4.2)**	**538.0**	503.5	(11.7)	491.8

The results of continuing operations in 1998 include the following amounts relating to acquisitions: turnover £24.8m, cost of sales £5.4m, selling, distribution and store costs £10.1m, research and development costs £2.2m, administrative expenses £2.1m.

Total operating profit is after charging:	1998 £m	1997 £m
Operating lease rentals		
– Property rents	**215.9**	185.9
– Computer and plant hire	**5.4**	5.2
Depreciation of tangible fixed assets	**118.1**	110.0
Amortisation of intangible fixed assets	**2.6**	2.4
Auditors' remuneration, including £0.3m (1997 £0.3m) for the parent company	**0.8**	0.9

The group auditors and their associates also received £2.3m (1997 £0.5m) in respect of non-audit services in the UK and £0.2m (1997 £0.2m) from overseas subsidiaries.

3 Exceptional items

	Notes	Continuing operations 1998 £m	Discontinued operation 1998 £m	Total 1998 £m	Continuing operations 1997 £m	Discontinued operation 1997 £m	Total 1997 £m
Exceptional operating items:							
Boots Opticians	a	**14.3**	**–**	**14.3**	12.7	–	12.7
Boots Healthcare International	b	**(8.8)**	**–**	**(8.8)**	(2.3)	–	(2.3)
Boots Contract Manufacturing	c	**–**	**–**	**–**	(1.8)	–	(1.8)
		5.5	**–**	**5.5**	8.6	–	8.6
Profit/(loss) on disposal of fixed assets:							
Profit on disposal of properties		**45.0**	**–**	**45.0**	14.4	–	14.4
Profit/(loss) on disposal of intangible assets	d	**2.1**	**–**	**2.1**	(3.1)	–	(3.1)
		47.1	**–**	**47.1**	11.3	–	11.3
(Loss)/profit on disposal of businesses (see note 4)		**–**	**(173.9)**	**(173.9)**	–	15.0	15.0
		52.6	**(173.9)**	**(121.3)**	19.9	15.0	34.9
Attributable tax charge (see note 6)		**(2.0)**	**–**	**(2.0)**	(3.3)	–	(3.3)
		50.6	**(173.9)**	**(123.3)**	16.6	15.0	31.6

a VAT recoverable arises from the High Court decision that VAT is not payable on the dispensing of spectacles. The amounts shown above represent VAT recovered from HM Customs & Excise.
b Boots Healthcare International has made provision for integrating the Hermal business into its skincare operations. In addition, provision has been made for the costs associated with restructuring of business support services.
c Provision was made last year for the costs of withdrawal from soap manufacturing and restructuring, including additional depreciation of £0.6m.
d Boots Healthcare International sold its Femfresh brands during the year for £2.1m.

Notes relating to the Financial Statements continued

4 Purchase and disposal of businesses

(i) Acquisitions	Hermal 1998 £m	Others 1998 £m	Total 1998 £m	Total 1997 £m
Tangible fixed assets	**14.7**	**2.9**	**17.6**	79.8
Intangible fixed assets	**0.4**	–	**0.4**	–
Stocks	**8.0**	**1.6**	**9.6**	91.1
Debtors	**6.1**	**1.1**	**7.2**	51.5
Cash balances/(overdrafts)	**3.1**	**(0.2)**	**2.9**	15.9
Investments and deposits	–	–	–	0.2
Borrowings and finance leases	–	–	–	(10.1)
Other creditors	**(17.3)**	**(3.3)**	**(20.6)**	(90.4)
Provisions for liabilities and charges	–	–	–	(83.1)
Less: previous share as associated undertaking	–	–	–	(32.1)
Minority interests	–	**(1.1)**	**(1.1)**	–
Fair value of net assets acquired	**15.0**	**1.0**	**16.0**	22.8
Goodwill	**166.5**	**22.8**	**189.3**	124.5
Consideration including acquisition costs	**181.5**	**23.8**	**205.3**	147.3
Deferred consideration included above	**0.6**	**0.3**	**0.9**	0.6
Variable rate loan notes consideration included above	–	**11.3**	**11.3**	–

All businesses purchased have been accounted for using the acquisition method of accounting.

Hermal

On 1st October 1997, Boots Healthcare International acquired a leading German medical skincare company, Hermal Kurt Herrman oHG (Hermal), from Merck KGaA along with the rights to certain other Merck dermatology products for DM501m (£176.2m).

The transfer of the other dermatology products is deferred for up to one year in Europe and for three years in non-European markets.

Profit after tax of Hermal prior to acquisition was as follows: from 1st January 1997 up to acquisition on 1st October 1997 £4.7m, for the financial year ended 31st December 1996 £11.0m. There were no significant fair value adjustments.

The effect of Hermal on the group cash flow statement for the current year was an additional inflow of £3.7m in the post-acquisition period, being cash inflow from operations of £4.6m, interest received of £0.1m and capital expenditure of £1.0m.

Others

On 20th January 1998, Boots The Chemists acquired the Hayes Conyngham & Robinson chemists chain in The Republic of Ireland for a consideration of £11.3m.

On 11th December 1997 the group acquired the Minor Group's interest in the health and beauty stores in Thailand for a cash consideration of Thai Baht 36.6m (£0.5m).

In addition, Boots The Chemists acquired a number of other pharmacy businesses during the year for a consideration of £9.9m.

There were no significant fair value adjustments in respect of any of these acquisitions.

The principal purchases during the year to 31st March 1997 were the group's acquisition of the remaining 50% of Do It All for a consideration of £1 and Boots Healthcare International's acquisition of Lutsia for a cash consideration of FF920m (£115m).

(ii) Disposals	1998 £m	1997 £m
Tangible fixed assets	**(24.4)**	(30.5)
Stocks	**(24.4)**	(17.8)
Debtors	**(2.5)**	(2.2)
Cash balances	**(7.1)**	(2.6)
Other creditors and provisions	**18.5**	9.3
Net assets disposed of	**(39.9)**	(43.8)
Related goodwill	**(121.5)**	–
Disposal and other termination costs	**(12.5)**	(3.7)
Consideration	**–**	62.5
(Loss)/profit on disposals	**(173.9)**	15.0

A G Stanley

The disposal of A G Stanley (AGS) to Alchemy Partners (Alchemy) was completed on 27th August 1997 for a consideration of £1. Prior to completion, The Boots Company PLC injected £6.75m new share capital into AGS. In addition, four trading properties with a net book value of £1.4m have been transferred to Alchemy together with a cash payment of £0.7m. Alchemy will also have the option, over a five year period, to purchase for £3.0m 27 other AGS trading properties which had a net book value of £7.8m at the date of sale.

AGS is a discontinued operation and its results for both the current year and prior years have been classified accordingly.

Others

The disposal in the year to 31st March 1997 was the sale of Childrens World to Storehouse PLC for a cash consideration of £62.5m. This disposal was classified as a discontinued operation.

(iii) Net cash outflow for acquisitions and disposals	Notes	1998 £m	1997 £m
Purchase of businesses		**(193.1)**	(146.7)
Cash balances/(overdrafts) acquired with businesses		**2.9**	15.9
Instalment received from/(loan to) W H Smith		**10.0**	(40.0)
Disposal of businesses		**–**	62.5
Cash balances sold with businesses		**(7.1)**	(2.6)
Deferred consideration in respect of prior year acquisitions and disposals	a	**(0.7)**	72.8
Costs of disposals paid		**(2.4)**	(2.8)
Investment by minority interests in subsidiary undertaking		**–**	0.5
		(190.4)	(40.4)

a The deferred consideration for 1997 includes the final payment of £73.0m received from BASF for the sale of Boots Pharmaceuticals. This business was sold on 31st March 1995.

Notes relating to the Financial Statements continued

5 Net interest

	1998 £m	1997 £m
Interest payable and similar charges:		
Bank loans and overdrafts	**(14.2)**	(4.5)
Other loans	**(26.3)**	(33.6)
Finance lease charges	**(1.5)**	(1.2)
Interest capitalised	**6.5**	5.1
Income from interest rate swaps	**11.6**	16.3
	(23.9)	(17.9)
Interest receivable and similar income	**24.0**	49.2
Increase in value of investment in 10.125% bond 2017	**15.1**	13.6
Share of interest of associated undertaking	**–**	(0.5)
Net interest	**15.2**	44.4

Interest receivable includes £Nil (1997 £0.2m) from loans to associated undertaking.

6 Tax on profit on ordinary activities

	1998 £m	1997 £m
UK corporation tax	**165.9**	170.9
Deferred taxation	**0.2**	3.0
Relief for overseas taxation	**(0.8)**	(1.2)
Share of taxation of associated undertaking	**–**	(0.4)
Total UK taxation	**165.3**	172.3
Overseas taxation	**4.0**	4.8
Overseas deferred taxation	**(0.1)**	1.2
Total	**169.2**	178.3
Tax charge included above attributable to exceptional items:		
Operating items	**2.0**	2.9
Profit on disposal of intangible assets	**–**	0.4
	2.0	3.3

The tax charge includes a prior year credit of £6m for corporation tax.

7 Profit for the financial year attributable to shareholders

Of the profit attributable to shareholders £1,050.7m (1997 £594.0m) is dealt with in the financial statements of the parent company.

8 Dividends

		1998 £m	1997 £m
First interim	**6.7p** per share (1997 6.2p)	**61.1**	56.1
Second interim	**Nil p** per share (1997 44.2p)	**–**	400.5
Final proposed	**15.6p** per share (1997 14.3p)	**142.3**	129.5
	22.3p 64.7p	**203.4**	586.1

9 Earnings per share

	1998	1997
Earnings per share before exceptional items	**42.6p**	39.5p
Effect of exceptional items	**(13.6)p**	3.4p
Earnings per share	**29.0p**	42.9p

The calculation of earnings per share is based on 910.1m (1997 916.7m) average ordinary shares in issue, excluding shares held by the Boots ESOP Trust Ltd, weighted on a time basis, and profit for the financial year attributable to shareholders of £264.0m (1997 £393.3m). The fully diluted earnings per share would not be materially different. Earnings per share before exceptional items is also disclosed to reflect the underlying performance of the group. This calculation is based on profit for the financial year before exceptional items and related tax of £387.3m (1997 £361.7m).

10 Intangible fixed assets

Patents, trademarks and other product rights acquired	Notes	Group £m	Parent £m
Cost			
At 1st April 1997		47.0	8.2
Additions		0.5	0.5
Purchase of businesses	4	0.4	–
Currency adjustments		(3.1)	–
At 31st March 1998		**44.8**	**8.7**
Amortisation			
At 1st April 1997		13.2	5.0
Amortisation for year		2.6	0.7
Currency adjustments		(0.3)	–
At 31st March 1998		**15.5**	**5.7**
Net book value at 1st April 1997		33.8	3.2
Net book value at 31st March 1998		**29.3**	**3.0**

Notes relating to the Financial Statements continued

11 Tangible fixed assets

Group	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Payments on account and assets in course of construction £m	Total £m
Cost or valuation					
At 1st April 1997	1,048.2	283.7	1,092.3	62.6	2,486.8
Currency adjustments	(2.6)	(1.9)	(1.9)	(0.1)	(6.5)
Additions	49.9	33.7	116.1	76.9	276.6
Purchase of businesses (see note 4)	11.3	3.5	2.8	–	17.6
Disposals	(233.9)	(29.5)	(39.3)	(0.3)	(303.0)
Disposal of businesses (see note 4)	(4.4)	(0.5)	(46.7)	–	(51.6)
Reclassifications	57.6	5.4	8.0	(71.0)	–
Revaluation surplus	(1.4)	–	–	–	(1.4)
Property development transfer	–	–	–	(5.4)	(5.4)
At 31st March 1998	**924.7**	**294.4**	**1,131.3**	**62.7**	**2,413.1**
Gross book value of depreciable assets	181.3	294.4	1,131.3	60.2	1,667.2
Depreciation					
At 1st April 1997	42.8	115.8	558.5	–	717.1
Currency adjustments	(0.5)	(0.6)	(1.1)	–	(2.2)
Depreciation for year	7.2	28.6	82.3	–	118.1
Disposals	(6.8)	(23.3)	(27.5)	–	(57.6)
Disposal of businesses (see note 4)	(1.7)	(0.3)	(25.2)	–	(27.2)
Reclassifications	(0.1)	1.1	(1.0)	–	–
At 31st March 1998	**40.9**	**121.3**	**586.0**	**–**	**748.2**
Net book value at 1st April 1997	1,005.4	167.9	533.8	62.6	1,769.7
Net book value at 31st March 1998	**883.8**	**173.1**	**545.3**	**62.7**	**1,664.9**

The cost of tangible fixed assets includes £26.9m (1997 £17.4m) in respect of assets held under finance leases on which the accumulated depreciation at the end of the year was £7.0m (1997 £3.1m) and for which the depreciation charge for the year was £4.9m (1997 £2.5m).

Land and buildings and assets in course of construction include capitalised interest net of taxation of £6.5m (1997 £7.0m).

Land and buildings include investment properties as follows:	£m
Valuation	
At 1st April 1997	249.6
Additions	27.9
Disposals	(194.8)
Reclassification	41.9
Revaluation deficit	(2.2)
At 31st March 1998	**122.4**

Investment properties were valued on the basis of existing use value at 31st March 1998 by the group's own professionally qualified staff.

In accordance with SSAP19, no depreciation is provided in respect of investment properties. This represents a departure from the Companies Act 1985 requirements to provide for the systematic annual depreciation of fixed assets. However, these properties are held for investment, rather than consumption, and the directors consider that the adoption of the above policy is necessary to give a true and fair view.

11 Tangible fixed assets continued

Parent	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Payments on account and assets in course of construction £m	Total £m
Cost or valuation					
At 1st April 1997	400.9	209.1	171.8	10.8	792.6
Additions	1.2	23.6	21.0	32.9	78.7
Disposals	(7.3)	(23.5)	(15.7)	(0.1)	(46.6)
Reclassifications and transfers	9.6	3.7	5.6	(20.9)	(2.0)
At 31st March 1998	**404.4**	**212.9**	**182.7**	**22.7**	**822.7**
Gross book value of depreciable assets	44.9	212.9	182.7	22.5	463.0
Depreciation					
At 1st April 1997	20.1	88.3	99.4	–	207.8
Depreciation for year	1.3	17.1	15.4	–	33.8
Disposals	(1.0)	(19.4)	(9.1)	–	(29.5)
Transfers	0.3	0.8	0.3	–	1.4
At 31st March 1998	**20.7**	**86.8**	**106.0**	**–**	**213.5**
Net book value at 1st April 1997	380.8	120.8	72.4	10.8	584.8
Net book value at 31st March 1998	**383.7**	**126.1**	**76.7**	**22.7**	**609.2**

The cost of tangible fixed assets includes £15.2m (1997 £9.1m) in respect of assets held under finance leases on which the accumulated depreciation at the end of the year was £4.0m (1997 £1.5m) and for which the depreciation charge for the year was £2.5m (1997 £1.3m).

		Group 1998 £m	Group 1997 £m	**Parent 1998 £m**	Parent 1997 £m
Net book value of land and buildings comprises:					
Freehold		**712.0**	840.3	**355.5**	353.5
Long leasehold (more than 50 years unexpired)		**124.1**	123.1	**28.2**	27.3
Short leasehold		**47.7**	42.0	**–**	–
		883.8	1,005.4	**383.7**	380.8
Analysis of cost or valuation:					
Cost		**1,688.4**	1,597.7	**815.1**	788.3
Valuation of properties	– Directors 1993	**593.6**	632.8	**–**	–
	– Independent 1989	**4.0**	0.7	**3.3**	–
	– Independent 1965	**0.4**	0.4	**–**	–
	– Independent 1958	**4.3**	5.6	**4.3**	4.3
Investment properties	– Directors 1998	**122.4**	249.6	**–**	–
		2,413.1	2,486.8	**822.7**	792.6
Net book value of tangible fixed assets under the historical cost convention		**1,380.1**	1,419.3	**608.9**	584.4

The valuations are on an open market basis for existing use.

Notes relating to the Financial Statements continued

12 Fixed asset investments

	Group Own shares £m	Parent Shares in subsidiary undertakings £m	Parent Loans to subsidiary undertakings £m	Parent Own shares £m	Parent Total £m
Cost					
At 1st April 1997	0.7	1,073.8	71.8	0.7	1,146.3
Additions	3.5	802.5	21.4	3.5	827.4
Disposals and repayments	–	(137.5)	(16.6)	–	(154.1)
Currency adjustments	–	–	(3.5)	–	(3.5)
At 31st March 1998	**4.2**	**1,738.8**	**73.1**	**4.2**	**1,816.1**
Provision/amortisation					
At 1st April 1997	0.2	199.7	2.1	0.2	202.0
Movement	–	(10.6)	3.9	–	(6.7)
Amortisation of own shares	1.4	–	–	1.4	1.4
At 31st March 1998	**1.6**	**189.1**	**6.0**	**1.6**	**196.7**
Net book value at 1st April 1997	0.5	874.1	69.7	0.5	944.3
Net book value at 31st March 1998	**2.6**	**1,549.7**	**67.1**	**2.6**	**1,619.4**

The principal subsidiary undertakings are listed on page 75.

Own shares

The Boots ESOP Trust Ltd, an employee share ownership trust, holds shares in the company which may subsequently be transferred to executive directors and senior employees under The Boots Long Term Bonus Scheme (see page 42) and The Boots Restricted Share Co-Investment Scheme. Under this latter scheme, participating senior employees purchase shares in the company using up to 50% of their annual bonus earned during the previous year and are granted a potential entitlement to receive a number of further shares equivalent to twice the pre-tax value of the sum invested. The employees' entitlement to receive the shares at the end of a specified performance period depends on the company's total shareholder return, compared to a peer group of companies, over that period. At 31st March 1998, the trust held 520,593 (1997 116,209) shares in the company with a market value of £5.0m (1997 £0.8m). Dividends have been waived by the trust. The shares were purchased to service Co-Investment Scheme and The Boots Long Term Bonus Scheme awards and their cost, £4.2m, is being charged to the profit and loss account over the relevant performance period. Costs of administering the trust are charged to the profit and loss account.

13 Stocks

	Group 1998 £m	Group 1997 £m	**Parent 1998 £m**	Parent 1997 £m
Manufacturing:				
Raw materials	**25.3**	24.8	**15.1**	16.9
Work in progress	**11.6**	10.3	**9.8**	9.1
Finished goods	**51.6**	50.6	**31.8**	32.1
	88.5	85.7	**56.7**	58.1
Retailing	**583.4**	543.6	**138.1**	128.0
Property development	**37.4**	38.0	–	–
	709.3	667.3	**194.8**	186.1

14 Debtors

	Group 1998 £m	Group 1997 £m	Parent 1998 £m	Parent 1997 £m
Falling due within one year:				
Trade debtors	**227.0**	208.8	**31.4**	26.8
Owed by subsidiary undertakings	**–**	–	**2,142.1**	418.3
Other debtors	**64.1**	32.5	**68.8**	66.8
Prepayments and accrued income	**65.8**	69.6	**18.4**	21.5
Corporation tax	**2.6**	2.2	**–**	–
Advance corporation tax	**27.4**	34.1	**26.4**	12.3
	386.9	347.2	**2,287.1**	545.7
Falling due after more than one year:				
Owed by subsidiary undertakings	**–**	–	**350.5**	155.9
Other debtors	**22.4**	33.1	**29.3**	37.9
Advance corporation tax	**35.6**	100.1	**35.6**	100.1
Corporation tax	**0.7**	–	**–**	–
	58.7	133.2	**415.4**	293.9
	445.6	480.4	**2,702.5**	839.6

15 Current asset investments and deposits

	Group 1998 £m	Group 1997 £m	Parent 1998 £m	Parent 1997 £m
Listed investments	**0.1**	0.1	**–**	–
Short term deposits	**218.8**	592.1	**195.7**	573.2
Certificates of tax deposit	**9.8**	10.8	**9.8**	10.8
	228.7	603.0	**205.5**	584.0
Market value of investments listed on The London Stock Exchange	**0.2**	0.1	**–**	–

16 Creditors: Amounts falling due within one year

	Group 1998 £m	Group 1997 £m	Parent 1998 £m	Parent 1997 £m
Borrowings (see note 18)	**196.9**	167.9	**1,273.3**	31.9
Trade creditors	**366.3**	331.1	**260.6**	229.3
Bills of exchange	**6.9**	4.5	**0.1**	0.1
Due to subsidiary undertakings	**–**	–	**47.8**	46.0
Corporation tax	**104.4**	135.8	**7.7**	26.9
Advance corporation tax	**50.9**	156.0	**50.8**	102.0
Taxation and social security (including VAT and other sales taxes)	**26.8**	32.8	**12.6**	12.3
Other creditors	**144.4**	127.5	**60.2**	47.9
Accruals and deferred income	**116.1**	111.6	**60.9**	49.4
Dividends (see note 8)	**142.3**	530.0	**142.3**	530.0
	1,155.0	1,597.2	**1,916.3**	1,075.8

17 Creditors: Amounts falling due after more than one year

	Group 1998 £m	Group 1997 £m	Parent 1998 £m	Parent 1997 £m
Borrowings (see note 18)	**216.8**	236.5	**394.2**	401.3
Due to subsidiary undertakings	**–**	–	**1,092.5**	736.4
Other creditors	**3.4**	2.7	**0.3**	0.3
Accruals and deferred income	**38.4**	35.7	**21.9**	24.5
	258.6	274.9	**1,508.9**	1,162.5

The only creditors falling due after more than five years are included in borrowings, details of which are shown in note 18.

Notes relating to the Financial Statements continued

18 Borrowings

	Notes	Group 1998 £m	Group 1997 £m	Parent 1998 £m	Parent 1997 £m
Bank loans and overdrafts repayable on demand		**139.6**	112.9	**1,240.3**	–
Other bank loans and overdrafts	a	**140.7**	155.5	**138.6**	148.2
Variable rate notes	b	**26.7**	16.1	**15.6**	16.1
10.125% bond 2017	c	**82.3**	97.4	**256.4**	253.7
Net liability under currency swaps	d	**4.7**	7.0	**4.7**	7.0
Obligations under finance leases		**19.7**	15.5	**11.9**	8.2
		413.7	404.4	**1,667.5**	433.2
Amounts included above repayable by instalments		**251.7**	261.1	**150.5**	156.4
Repayments fall due as follows:					
Within one year:					
– Bank loans and overdrafts		**139.9**	114.2	**1,240.3**	–
– Obligations under finance leases		**7.0**	4.4	**4.2**	2.0
– Other borrowings		**50.0**	49.3	**28.8**	29.9
		196.9	167.9	**1,273.3**	31.9
After more than one year:					
– Within one to two years		**37.5**	35.3	**16.5**	14.6
– Within two to five years		**104.2**	105.6	**306.3**	43.2
– After five years		**75.1**	95.6	**71.4**	343.5
		216.8	236.5	**394.2**	401.3
		413.7	404.4	**1,667.5**	433.2

a Other bank loans and overdrafts include the factoring of certain rental commitments of £138.6m (1997 £148.2m) over a ten year period up to March 2007, £95m of which was swapped into a floating rate of interest.
b Variable rate notes are repayable, subject to certain restrictions, at the option of the holders.
c A subsidiary, Boots Investments Limited, owns all the £250m 10.125% bond 2017 of The Boots Company PLC, together with all the outstanding interest coupons other than those maturing on or before 24th June 2002. The parent company has entered into an agreement with Boots Investments Limited to redeem the bond on 25th June 2002 for an amount of £275m. The group balance sheet consolidates the borrowing by the parent company with the present value of the investment held by the subsidiary.
d The group has a number of US dollar currency swaps, which are equivalent to borrowing US dollars and depositing sterling for a fixed period. Following the disposal of Boots Pharmaceuticals on 31st March 1995, the group put in place a series of matching swaps, which are equivalent to depositing US dollars and borrowing sterling. The net liability shown above represents the effect of translating the above transactions into sterling at the year end exchange rate.
e The group has a number of interest rate swap agreements which convert fixed rate liabilities to floating rate. The fixed rate commitments effectively converted are £70m of the 10.125% bond, £775m of operating leases and £95m referred to in note a above. Further details are provided in the Financial Review on page 10.
f All borrowings are unsecured.

19 Provisions for liabilities and charges

Group	Deferred taxation £m	Acquisition provisions £m	Disposal provisions £m	Total £m
At 1st April 1997	15.8	57.3	18.9	92.0
Profit and loss account	0.1	(0.2)	(0.8)	(0.9)
Subsidiaries acquired/disposed (see note 4)	(1.2)	2.5	12.5	13.8
Utilised	–	(32.8)	(8.3)	(41.1)
Currency adjustments	(0.1)	(0.2)	–	(0.3)
At 31st March 1998	**14.6**	**26.6**	**22.3**	**63.5**

The majority of the acquisition provisions at 31st March 1998 relate to onerous contracts in Do It All.

The majority of the disposal provisions at 31st March 1998 relate to the sale of A G Stanley during the year and the sale of Boots Pharmaceuticals in March 1995. The latter includes amounts in respect of possible environmental liabilities arising from former involvement in an agro-chemical joint venture in the US.

Parent	Deferred taxation £m	Disposal provisions £m	Total £m
At 1st April 1997	3.6	9.2	12.8
Profit and loss account	(4.5)	12.5	8.0
Utilised	–	(8.3)	(8.3)
At 31st March 1998	**(0.9)**	**13.4**	**12.5**

	Group 1998 £m	Group 1997 £m	**Parent 1998 £m**	Parent 1997 £m
Analysis of deferred taxation provision:				
Accelerated capital allowances	**13.1**	12.5	**–**	–
Other items	**1.5**	3.3	**(0.9)**	3.6
	14.6	15.8	**(0.9)**	3.6
Unprovided deferred taxation:				
Accelerated capital allowances	**70.8**	72.5	**28.9**	27.0
Other items	**(1.7)**	(1.3)	**(0.9)**	(1.0)
	69.1	71.2	**28.0**	26.0

It is not anticipated that any significant taxation will become payable on the revaluation surplus, as taxation on gains on properties used for the purposes of the group's trade is expected to be deferred indefinitely or eliminated by capital losses.

Notes relating to the Financial Statements continued

20 Capital and reserves

Group	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 1st April 1997	226.5	233.7	351.9	36.8	772.7	1,621.6
Profit retained	–	–	–	–	60.6	60.6
Movement in goodwill (see below)	–	–	–	–	(67.8)	(67.8)
Revaluation surplus	–	–	(1.4)	–	–	(1.4)
Revaluation surplus realised on disposals	–	–	(64.4)	–	64.4	–
Issue of shares	0.8	11.1	–	–	–	11.9
Share issue expenses	–	(0.1)	–	–	–	(0.1)
Scrip dividends	0.9	(0.9)	–	–	27.8	27.8
Currency adjustments	–	–	–	–	(13.7)	(13.7)
At 31st March 1998	**228.2**	**243.8**	**286.1**	**36.8**	**844.0**	**1,638.9**

The revaluation reserve includes £9.3m (1997 £69.2m) relating to investment properties.

Goodwill set off against reserves in respect of businesses still within the group is as follows:	£m
At 1st April 1997	1,026.9
Goodwill purchased (see note 4)	189.3
Goodwill released on disposal of businesses	(121.5)
At 31st March 1998	**1,094.7**

Parent	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 1st April 1997	226.5	233.7	36.8	512.9	1,009.9
Profit retained	–	–	–	847.3	847.3
Issue of shares	0.8	11.1	–	–	11.9
Share issue expenses	–	(0.1)	–	–	(0.1)
Scrip dividends	0.9	(0.9)	–	27.8	27.8
At 31st March 1998	**228.2**	**243.8**	**36.8**	**1,388.0**	**1,896.8**

21 Share capital

	Number of shares 1998 million	Number of shares 1997 million	1998 £m	1997 £m
Ordinary shares of 25p each:				
Authorised	**1,200.0**	1,200.0	**300.0**	300.0
Allotted, called up and fully paid	**912.9**	906.1	**228.2**	226.5

Shares allotted during the year	Number million	Nominal value £m	Consideration £m
Scrip dividends	3.8	0.9	–
Option schemes	3.0	0.8	11.9
	6.8	1.7	11.9

During the year approximately 29% of shareholders owning 21.6% of shares elected to take all or part of their dividends in shares at a value of £27.8m. The nominal value of the shares issued has been funded out of the share premium account and the amount of the dividend has been added back to the profit and loss reserve.

Share options

Under a savings-related scheme, options may be granted enabling employees to subscribe for ordinary shares at approximately 80% of market price. At 31st March 1998, options exercisable from 1998 to 2005 at between 269p and 588p per share were outstanding in respect of 15,378,768 shares.

Under an executive share option scheme, certain senior executives were granted options to subscribe for ordinary shares at a future date at a price based on the market price prevailing a few days before the date of grant.

At 31st March 1998, such options were outstanding as follows:

Number of shares	Option price	Exercisable from 4th June 1998 to
20,000	257p	December 1999
27,500	286p	July 2000
35,000	339p	December 2000
138,500	399p	July 2001
28,000	420p	December 2001
105,000	437p	August 2002
175,000	438p	June 2003
296,500	531p	June 2004
42,500	519p	November 2004
10,000	482p	February 2005

At 31st March 1998 there were no outstanding executive share options held by executive directors.

Notes relating to the Financial Statements continued

22 Detailed analysis of gross cash flows

	1998 £m	1997 £m
Exceptional operating cash flows:		
VAT recovered from HM Customs & Excise	**14.0**	12.7
Expenditure on terminating onerous contracts at Do It All	**(36.4)**	(35.1)
Restructuring and integration costs paid	**(4.3)**	(0.7)
Cash flows relating to prior year disposals	**(1.2)**	(1.7)
	(27.9)	(24.8)
Returns on investment and servicing of finance:		
Interest received	**33.8**	74.4
Interest paid	**(44.3)**	(35.3)
	(10.5)	39.1
Capital expenditure and financial investment:		
Purchase of fixed assets	**(249.1)**	(222.8)
Disposal of fixed assets	**261.7**	53.9
Purchase of own shares	**(3.5)**	(0.7)
	9.1	(169.6)
Management of liquid resources:		
Sale of index linked treasury stock	**–**	199.7
Decrease in other current asset investments and deposits	**371.9**	88.8
	371.9	288.5
Financing:		
Capital element of finance lease rental agreements	**(5.5)**	(2.9)
Factored rental commitments	**(9.6)**	148.2
Redemption of US$175m 9% bond 1997	**–**	(107.2)
Decrease in other borrowings	**(5.4)**	(4.0)
Cash (outflow)/inflow from change in borrowings and lease financing	**(20.5)**	34.1
Issue of ordinary share capital	**11.7**	7.8
Repurchase of shares	**–**	(300.0)
	(8.8)	(258.1)

23 Analysis of net funds/(debt)

	As at 1st April 1997 £m	Cash flow £m	Acquisitions £m	Disposals £m	Other non-cash changes £m	Currency £m	**As at 31st March 1998 £m**
Cash at bank and in hand	30.9	8.2	–	–	–	(3.5)	**35.6**
Bank loans and overdrafts repayable on demand	(112.9)	(27.4)	–	–	–	0.7	**(139.6)**
Cash	(82.0)	(19.2)	–	–	–	(2.8)	**(104.0)**
Liquid resources	603.0	(371.9)	–	–	(1.0)	(1.4)	**228.7**
Obligations under finance leases	(15.5)	5.5	–	0.4	(10.4)	0.3	**(19.7)**
Other borrowings	(276.0)	15.0	(11.3)	–	17.4	0.5	**(254.4)**
Total	229.5	(370.6)	(11.3)	0.4	6.0	(3.4)	**(149.4)**

Liquid resources comprise listed investments, short term deposits and certificates of tax deposits (see note 15).

24 Commitments and contingent liabilities

(i) Future capital expenditure approved by the directors and not provided for in these financial statements is as follows:

	Group 1998 £m	Group 1997 £m	**Parent 1998 £m**	Parent 1997 £m
Contracts placed	**149.4**	71.1	**29.9**	18.8

(ii) Annual commitments under operating leases at 31st March 1998 are as follows:

	Group Land and buildings £m	Group Other £m	Parent Land and buildings £m	Parent Other £m
Expiring:				
Within one year	**3.0**	**1.0**	**6.4**	**0.1**
Over one year and less than five years	**22.4**	**3.0**	**2.8**	**–**
Over five years	**198.2**	**–**	**6.1**	**–**
	223.6	**4.0**	**15.3**	**0.1**

(iii) Contingent liabilities

Knoll Pharmaceutical Co. ("Knoll") is a defendant in a number of consumer class actions in 30 states of the USA, Canada and Puerto Rico. Knoll is the successor to Boots Pharmaceuticals Inc., formerly an indirect subsidiary of the company, which was sold to the BASF group under agreements made by the company in March 1995. The company has been named as a defendant in some of these actions, which allege that the marketing of the product Synthroid did not comply with consumer protection and business practice laws. A federal court in Illinois is considering approval of a settlement agreement made by Knoll (which would also release the company) in respect of the consumer class actions in the USA and Puerto Rico. Objections and opt-outs have been raised. The company asserts that the relevant courts have no jurisdiction over it in these cases and this has been accepted by a state court in Illinois. The outcome of the existing actions and whether other claims may arise remain uncertain and may not be known for several years. The company has good defences to claims concerning Synthroid and the directors are of the opinion that the outcome should not have a material adverse impact on the group.

25 Pensions

The group operates pension schemes throughout the world, most of which are final salary (defined benefit) schemes, and are fully funded.

The principal UK pension scheme is Boots Pension Scheme. The actuaries to this scheme, Bacon & Woodrow, carried out their latest valuation of the scheme as at 1st April 1995. The results of the valuation showed that the actuarial value of the assets represented 113% of the actuarial value of the accrued benefits. The accrued benefits valued include all benefits for pensioners and other former members as well as benefits based on service to the valuation date for active members, allowing for future pay increases. The surplus in the scheme is the net result of surpluses carried forward from the two previous valuations as at 1st April 1989 and 1st April 1992 and a deficit arising in respect of the three years ending 1st April 1995. At 1st April 1992 the ratio of the actuarial value of the assets to the value of the accrued benefits was 131%. The reduction in this ratio to 113% is mainly due to the temporary suspension of employer contributions to the scheme.

The pension charge shown in the financial statements for the year was £5m (1997 £4m). This charge arises as a result of the regular cost of pensions being substantially reduced by amortisation of the surpluses disclosed by the 1989 and 1992 valuations and increased by the amortisation of the deficit in respect of the three years ending 1st April 1995. The surpluses and deficits are being recognised over the expected average remaining service life of members at the date of the valuations. The remaining amortisation period of the surpluses disclosed at the 1989 and 1992 valuations are approximately four and eight years respectively. The deficit disclosed at the April 1995 valuation is being recognised over approximately 13 years from that date. Included within other creditors is a pension provision of £12m (1997 £8m).

The projected unit method was used both in assessing pension costs for accounting purposes and for funding the scheme. The assumed rate of investment return was 2½% per annum above the assumed rate of pay increases, 4% per annum above the assumed rate of pension increases and 4½% per annum above the assumed rate of dividend increases. Members retiring are assumed to be replaced by new entrants so that the average age of the membership remains constant. The market value of the scheme's assets was £1,372 million at 1st April 1995.

In common with other companies, additional pension arrangements are being made for those more recently recruited senior executives whose benefits, relative to long serving staff, are subject to statutory restrictions.

Notes relating to the Financial Statements continued

26 Staff numbers and costs

The average number of persons employed by the group during the year was as follows:

	1998	1997
Continuing operations		
Boots The Chemists	**58,369**	54,747
Halfords	**9,581**	9,330
Boots Opticians	**4,349**	3,631
Do It All	**5,039**	4,061
Boots Healthcare International	**1,952**	1,779
Boots Contract Manufacturing	**4,027**	3,653
Boots Properties	**92**	88
International Retail Development	**311**	27
Central	**600**	1,218
	84,320	78,534
Discontinued operation		
A G Stanley	**1,029**	2,432
Childrens World	**–**	294
Total employees	**85,349**	81,260

Total number of persons employed by the group at 31st March 1998 was 86,780 (1997 82,520).

The aggregate payroll cost was as follows:	£m	£m
Wages and salaries	**866.5**	799.4
Social security costs	**66.0**	59.4
Other pension costs	**6.4**	5.6
	938.9	864.4
Analysed as:		
Continuing operations	**930.3**	862.6
Discontinued operations	**8.6**	1.8
	938.9	864.4

27 Remuneration of directors and directors' shareholdings

Details of the remuneration, shareholdings and share options are included in the Board Remuneration Committee's Report on pages 40 to 45.

28 Related party disclosures

The group had no material transactions with related parties during the year.

Principal Companies

	Percentage held by parent	Percentage held by subsidiary undertakings	Country of incorporation where operating overseas	Principal activities
Parent				
The Boots Company PLC				Manufacturing, marketing and distribution of healthcare and consumer products
Subsidiary undertakings				
(incorporated in Great Britain)				
BCM Ltd.	100			Manufacturing pharmaceuticals and consumer products
Boots Development Properties Ltd.		100		Property development
Boots Healthcare International Ltd.	100			Marketing consumer products
Boots Opticians Ltd.		100		Registered opticians
Boots Properties PLC	100			Property holding
Boots The Chemists Ltd.	100			Retail chemists
Crookes Healthcare Ltd.	100			Marketing consumer products
Do It All Ltd.	100			DIY retailer
Halfords Ltd.	100			Retailing of auto parts, accessories and bicycles and car servicing
Optrex Ltd.	100			Marketing consumer products
Subsidiary undertakings				Activities refer to healthcare and/or consumer products unless otherwise indicated
(incorporated overseas)				
The Boots Company (Australia) Pty. Ltd.	100		Australia	Marketing
Boots Healthcare SA NV		100	Belgium	Marketing
Boots Healthcare SA		100	France	Marketing
BCM Cosmetique SA	100		France	Manufacturing and marketing
Laboratoires Lutsia SA		100	France	Manufacturing and marketing
Roval SA		100	France	Manufacturing
BCM Kosmetik GmbH	100		Germany	Manufacturing and marketing
Hermal Kurt Herrman oHG		100	Germany	Manufacturing and marketing
Boots (Retail Buying) Ltd.	100		Hong Kong	Buying
Boots Healthcare Ltd.	100		Ireland	Marketing
Boots Healthcare Marco Viti Farmaceutici S.p.A.	100		Italy	Manufacturing and marketing
Boots Investments Ltd.	100		Jersey	Investment company
Boots Trading (Malaysia) Sdn. Bhd.	100		Malaysia	Marketing
Boots Healthcare BV		100	Netherlands	Marketing
The Boots Company (New Zealand) Ltd.	100		New Zealand	Marketing
The Boots Company (Philippines) Inc	100		Philippines	Marketing
The Boots Company (Far East) Pte. Ltd.	100		Singapore	Marketing
The Boots Company (South Africa) (Pty.) Ltd.	100		South Africa	Manufacturing and marketing
Boots Healthcare S.A.	100		Spain	Marketing
The Boots Company (Thailand) Ltd.	100		Thailand	Marketing
Boots Retail (Thailand) Ltd.	49	51	Thailand	Retail

All percentages relate to holdings of ordinary share capital.
All companies operate principally in the country of incorporation.

Group Financial Record

Profit and loss account	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m
Turnover	**5,021.9**	4,578.0	4,124.7	4,308.1	4,167.1
Operating profit before exceptional items	**538.0**	491.8	442.6	520.2	487.9
Operating exceptional items	**5.5**	8.6	12.8	2.8	(73.8)
Operating profit	**543.5**	500.4	455.4	523.0	414.1
Other exceptional items	**(126.8)**	26.3	1.4	321.3	5.3
Profit on ordinary activities before interest	**416.7**	526.7	456.8	844.3	419.4
Net interest	**15.2**	44.4	50.9	5.4	(3.1)
Profit on ordinary activities before taxation	**431.9**	571.1	507.7	849.7	416.3
Taxation	**(169.2)**	(178.3)	(167.1)	(185.8)	(126.3)
Profit on ordinary activities after taxation	**262.7**	392.8	340.6	663.9	290.0
Minority interests	**1.3**	0.5	–	(4.7)	(1.7)
Profit attributable to shareholders	**264.0**	393.3	340.6	659.2	288.3
Dividends	**(203.4)**	(586.1)	(176.4)	(166.4)	(156.0)
Profit/(loss) retained	**60.6**	(192.8)	164.2	492.8	132.3

Total recognised gains and losses					
Profit attributable to shareholders	**264.0**	393.3	340.6	659.2	288.3
(Deficit)/surplus on revaluation of properties	**(1.4)**	27.1	16.0	6.6	16.8
Currency translation differences	**(13.7)**	(10.4)	3.3	(18.5)	1.7
Other net gains	**–**	0.3	–	0.2	0.7
Recognised gains and losses for the year	**248.9**	410.3	359.9	647.5	307.5

Movements in shareholders' funds					
Recognised gains and losses for the year	**248.9**	410.3	359.9	647.5	307.5
Dividends	**(203.4)**	(586.1)	(176.4)	(166.4)	(156.0)
New share capital subscribed	**11.8**	7.7	9.1	15.4	9.3
Repurchase of shares	**–**	(300.0)	–	(511.3)	–
Goodwill purchased	**(189.3)**	(124.5)	(8.7)	(3.9)	(7.1)
Goodwill released on disposal of businesses	**121.5**	4.4	0.1	383.4	0.4
Scrip dividends	**27.8**	8.3	10.6	–	–
Currency adjustment on goodwill	**–**	–	–	33.6	(23.7)
Increase/(decrease) in shareholders' funds	**17.3**	(579.9)	194.6	398.3	130.4

Balance sheet	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m
Fixed assets	**1,694.2**	1,803.5	1,651.0	1,526.7	1,525.3
Investments	**2.6**	0.5	46.4	30.6	57.1
Net current assets	**264.2**	184.4	700.3	761.9	378.5
Other creditors	**(258.6)**	(274.9)	(150.5)	(264.7)	(315.9)
Provisions for liabilities and charges	**(63.5)**	(92.0)	(45.7)	(47.6)	(29.1)
Net assets	**1,638.9**	1,621.5	2,201.5	2,006.9	1,615.9
Represented by:					
Shareholders' funds	**1,638.9**	1,621.6	2,201.5	2,006.9	1,608.6
Minority interests	**–**	(0.1)	–	–	7.3
	1,638.9	1,621.5	2,201.5	2,006.9	1,615.9

Cash flow statement	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m
Cash inflow from operating activities	**605.6**	515.1	536.5	642.3	635.9
Returns on investment and servicing of finance	**(10.5)**	39.1	16.2	7.4	(0.7)
Taxation	**(232.8)**	(174.4)	(152.7)	(139.5)	(108.6)
Capital expenditure and financial investment	**9.1**	(169.6)	(197.3)	(231.0)	(188.6)
Acquisitions and disposals	**(190.4)**	(40.4)	(48.4)	884.2	(6.6)
Equity dividends paid	**(563.3)**	(169.8)	(154.4)	(151.5)	(46.9)
Cash flow before use of liquid resources and financing	**(382.3)**	–	(0.1)	1,011.9	284.5
Management of liquid resources	**371.9**	288.5	122.8	(621.2)	(114.5)
Financing	**(8.8)**	(258.1)	(125.4)	(382.8)	(144.5)
(Decrease)/increase in cash	**(19.2)**	30.4	(2.7)	7.9	25.5

Statistics	1998	1997	1996	1995	1994
Sales growth from continuing operations	**11.7%**	13.8%	5.8%	3.4%	5.2%
Return on shareholders' funds	**16.3%**	17.8%	17.0%	41.3%	19.6%
Earnings per share	**29.0p**	42.9p	35.8p	65.7p	27.7p
Earnings per share before exceptional items	**42.6p**	39.5p	34.7p	36.0p	33.0p
Net (debt)/funds	**(149.4)**	229.5	526.2	517.2	69.0
Capital expenditure	**276.6**	226.9	239.7	249.8	224.0

Return on shareholders' funds is calculated as profit on ordinary activities after taxation as a percentage of opening shareholders' funds.

Shareholder value	1998	1997	1996	1995	1994
Dividend per share	**22.3p**	64.7p	18.5p	17.0p	15.0p
Dividend cover	**1.3**	0.7	1.9	4.0	1.8
Share price:					
Highest	**963p**	701p	627p	582p	605p
Lowest	**676p**	555p	500p	458p	417p

Segmental Financial Record – Continuing Operations

	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m
Turnover, including inter-segmental turnover:					
Boots The Chemists	**3,573.7**	3,313.5	3,107.6	2,943.8	2,808.0
Halfords	**435.0**	412.8	390.5	377.9	357.0
Boots Opticians	**182.9**	148.1	132.3	119.1	102.1
Do It All – subsidiary undertaking	**337.2**	254.6	–	–	–
– associated undertaking	**–**	46.8	170.7	185.3	194.2
Boots Healthcare International	**273.7**	243.4	206.7	203.5	227.7
Boots Contract Manufacturing	**314.9**	259.5	239.4	216.0	208.8
Boots Properties – Development	**49.4**	0.5	7.0	5.6	20.7
– Investment	**100.2**	101.6	95.9	92.4	87.7
International Retail Development	**5.2**	–	–	–	–
Operating profit before operating exceptional items:					
Boots The Chemists	**443.8**	426.5	384.8	349.7	323.9
Halfords	**34.2**	26.8	22.1	20.5	14.5
Boots Opticians	**17.0**	13.8	10.9	8.3	6.7
Do It All – subsidiary undertaking	**2.5**	(6.2)	–	–	–
– associated undertaking	**–**	(0.7)	(10.1)	(6.3)	(10.6)
Boots Healthcare International	**1.2**	(6.6)	(8.2)	9.8	21.3
Boots Contract Manufacturing	**24.7**	19.7	16.7	17.8	16.2
Boots Properties – Development	**8.8**	–	1.8	1.7	5.8
– Investment	**67.2**	72.1	66.4	65.1	61.3
International Retail Development	**(21.2)**	(8.5)	(1.1)	–	–
Capital expenditure:					
Boots The Chemists	**146.9**	88.3	86.1	81.6	91.9
Halfords	**14.9**	12.3	14.5	16.7	10.6
Boots Opticians	**7.8**	8.9	11.2	18.8	12.5
Do It All – subsidiary undertaking	**6.6**	7.5	–	–	–
Boots Healthcare International	**7.4**	11.0	12.5	5.7	3.4
Boots Contract Manufacturing	**26.5**	31.4	29.5	22.2	18.8
Boots Properties	**61.6**	63.8	75.1	73.6	54.1
International Retail Development	**4.8**	1.1	–	–	–

Shareholder Information

Annual general meeting
The annual general meeting will be held at 11.00 am on Thursday, 23rd July 1998 at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London. Each shareholder is entitled to attend and vote at the meeting, the arrangements for which are described in the accompanying notice.

Dividend payments
The proposed final dividend (if approved) will be paid on 21st August 1998 to shareholders registered on 19th June 1998. Shareholders will have the opportunity to reinvest their cash dividend in existing shares bought on the London Stock Exchange through a dividend reinvestment plan. Details are enclosed with this report and accounts. All forms of election must be received by the company's registrars by 5.00 pm on 31st July 1998.

The expected dividend payment dates for the year to 31st March 1999 are:

Interim dividend	February 1999
Final dividend	August 1999

Results
For the year to 31st March 1999:

Interim results announced	November 1998
Interim statement circulated	November 1998
Preliminary announcement of full year results	June 1999
Annual report circulated	June 1999

Capital gains tax
For capital gains tax purposes, the market price of the company's ordinary shares of 25p each on 31st March 1982 was 112.5p.

Low cost share dealing services
Details of special low cost dealing services in the company's shares may be obtained from:
- **Hoare Govett Limited** (telephone 0171 601 0101) Hoare Govett is regulated by the Securities and Futures Authority.
- **National Westminster Bank Plc** (telephone 0171 895 5489) National Westminster Bank Plc is regulated by the Personal Investment Authority and IMRO. Share dealing services are provided by NatWest Stockbrokers Limited, which is a member of the London Stock Exchange and regulated by the Securities and Futures Authority.

Both Hoare Govett and National Westminster Bank Plc have approved the references to them for the purposes of section 57 of the Financial Services Act 1986.

Personal equity plans (PEPs)
General and Single Company PEPs in the ordinary shares of the company are available for investors wishing to take advantage of preferential tax treatment in relation to their shareholdings. For further information contact The Plan Manager, National Westminster Bank Plc, NatWest PEP Office, 55 Mansell Street, London E1 8AN.
Telephone helpline 0171 895 5600.

Registrar and Transfer Office
Computershare Services PLC, PO Box 82, Caxton House, Redcliffe Way, Bristol BS99 7NH. Telephone 0117 930 6600.

Company Secretary and Registered Office
I A Hawtin; The Boots Company PLC, Nottingham NG2 3AA. Telephone 0115 950 6111.
The Boots Company PLC is registered in England and Wales (No. 27657).

Analysis of shareholders at 31st March 1998

Shareholding range	Number	%	Total holding	%
1-500	39,219	32.26	9,201,951	1.01
501-1,000	28,770	23.66	21,726,352	2.38
1,001-10,000	50,351	41.42	129,809,913	14.22
10,001-100,000	2,570	2.11	63,843,662	6.99
100,001-1,000,000	516	0.42	162,696,578	17.82
Over 1,000,000	143	0.13	525,632,361	57.58
	121,569	100.00	912,910,817	100.00

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